

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

Financial Statements

December 31, 2005 and 2004

(With Independent Auditors' Report Thereon)



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Financial Statements

To the Federal Financial Institutions Examination Council:

We have audited the accompanying balance sheets of the Federal Financial Institutions Examination Council (the Council) as of December 31, 2005 and 2004, and the related statements of revenues and expenses and changes in cumulative results of operations, and cash flows for the years then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Federal Financial Institutions Examination Council, at December 31, 2005 and 2004, and the results of its operations, and its cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated March 7, 2006, on our consideration of the Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

March 7, 2006

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

BALANCE SHEETS

<u>ASSETS</u>	As of December 31,	
	2005	2004
CURRENT ASSETS		
Cash	\$ 598,259	\$ 607,944
Accounts receivable from member organizations (Note 3)	1,808,511	2,765,680
Other accounts receivable	557,347	231,411
Total current assets	2,964,117	3,605,035
CAPITAL ASSETS		
Furniture and equipment, at cost	60,446	60,446
Central Data Repository, at cost (Note 4)	12,055,244	9,083,760
Less accumulated depreciation	(629,743)	(60,446)
Net capital assets	11,485,947	9,083,760
Total assets	\$14,450,064	\$12,688,795
<u>LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities payable to member organizations	\$ 1,099,400	\$ 751,049
Other accounts payable and accrued liabilities (Note 4)	1,482,102	2,511,889
Accrued payroll and annual leave	297,202	217,736
Deferred revenue (current portion) (Note 2, Note 4)	2,277,189	486,630
Total current liabilities	5,155,893	3,967,304
LONG-TERM LIABILITIES		
Deferred revenue (non-current portion) (Note 2, Note 4)	9,208,758	8,597,130
Deferred rent (Note 5)	75,604	80,045
Total long-term liabilities	9,284,362	8,677,175
Total liabilities	14,440,255	12,644,479
CUMULATIVE RESULTS OF OPERATIONS		
Total liabilities and cumulative results of operations	\$14,450,064	\$12,688,795

See accompanying notes to financial statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

**STATEMENTS OF REVENUES AND EXPENSES
AND CHANGES IN CUMULATIVE RESULTS OF OPERATIONS**

	For the years ended December 31,	
	<u>2005</u>	<u>2004</u>
REVENUES		
Assessments on member organizations (Note 3)	\$ 419,055	\$ 560,100
Central Data Repository (Note 4)	3,205,813	0
Home Mortgage Disclosure Act (Note 6)	2,574,809	2,596,768
Tuition	1,991,263	1,834,021
Community Reinvestment Act	821,390	855,958
Uniform Bank Performance Report	524,350	522,265
Appraisal Subcommittee	<u>183,566</u>	<u>180,079</u>
 Total revenues	 <u>9,720,246</u>	 <u>6,549,191</u>
EXPENSES		
Data processing	3,623,133	3,719,826
Professional fees (Note 4)	3,241,435	530,003
Salaries and related benefits	1,303,342	1,228,026
Depreciation and net losses on disposals (Note 4)	569,297	97
Rental of office space	437,564	525,972
Administration fees	175,000	133,500
Travel	116,098	77,839
Books and subscriptions	98,361	103,941
Other seminar expenses	71,285	59,785
Rental and maintenance of office equipment	50,775	65,250
Office and other supplies	35,506	21,342
Printing	14,468	19,978
Postage	17,195	19,371
Miscellaneous	<u>1,294</u>	<u>1,017</u>
 Total expenses	 <u>9,754,753</u>	 <u>6,505,947</u>
 RESULTS OF OPERATIONS	 (34,507)	 43,244
 CUMULATIVE RESULTS OF OPERATIONS, Beginning of year	 <u>44,316</u>	 <u>1,072</u>
 CUMULATIVE RESULTS OF OPERATIONS, End of year	 <u>\$ 9,809</u>	 <u>\$ 44,316</u>

See accompanying notes to financial statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

STATEMENTS OF CASH FLOWS

	For the years ended December 31,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
RESULTS OF OPERATIONS	\$ (34,507)	\$ 43,244
Adjustments to reconcile results of operations to net cash provided by operating activities:		
Depreciation and net losses on disposals	569,297	97
(Increase) decrease in assets:		
Accounts receivable from member organizations	957,169	983,639
Other accounts receivable	(325,936)	(14,428)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities to member organizations	348,351	(52,760)
Other accounts payable and accrued liabilities	(1,029,787)	(1,094,495)
Accrued payroll and annual leave	79,466	(20,861)
Deferred revenue (current and non-current)	2,402,187	1,644,010
Deferred rent	(4,441)	(75,058)
Net cash provided by operating activities	2,961,799	1,413,388
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures (Note 4)	(2,971,484)	(1,644,010)
Net cash used in investing activities	(2,971,484)	(1,644,010)
NET INCREASE (DECREASE) IN CASH	(9,685)	(230,622)
CASH BALANCE, Beginning of year	607,944	838,566
CASH BALANCE, End of year	\$ 598,259	\$ 607,944

See accompanying notes to financial statements.

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

(1) ORGANIZATION AND PURPOSE

The Federal Financial Institutions Examination Council (the "Council") was established under Title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978. The purpose of the Council is to prescribe uniform principles and standards for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of these financial institutions. The five agencies which are represented on the Council, referred to hereinafter as member organizations, are as follows:

Board of Governors of the Federal Reserve System (FRB)
Federal Deposit Insurance Corporation (FDIC)
National Credit Union Administration (NCUA)
Office of the Comptroller of the Currency (OCC)
Office of Thrift Supervision (OTS)

Appraisal Subcommittee - The Council's financial statements do not include financial data for the Appraisal Subcommittee. The Appraisal Subcommittee of the Council was created pursuant to Public Law 101-73, Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The functions of the Appraisal Subcommittee are related to the certification and licensing of individuals who perform appraisals in connection with federally related real estate transactions. Members of the Appraisal Subcommittee consist of the designees of the heads of those agencies which comprise the Council and the designee of the head of the Department of Housing and Urban Development.

All functions and responsibilities assigned to the Council under Title XI are performed directly by the Appraisal Subcommittee without any need for approval or concurrence from the Council. The Appraisal Subcommittee has its own policies and procedures and submits its own Annual Report to the President of the Senate and Speaker of the House. The Council is not responsible for any debts incurred by the Subcommittee, nor are Subcommittee funds available for use by the Council.

Reclassifications - Certain 2004 amounts have been reclassified to conform with the 2005 presentation.

(2) SIGNIFICANT ACCOUNTING POLICIES

The Council prepares its financial statements in accordance with accounting principles generally accepted in the United States of America based upon accounting standards issued by the Financial Accounting Standards Board (FASB).

The financial statements have been prepared on the accrual basis of accounting.

Revenues - Assessments made on member organizations for operating expenses and additions to property are based on expected cash needs. Amounts over or under assessed due to differences between actual and expected cash needs flow into "Cumulative Results of Operations" during the year and then are used to offset or increase the next year's assessment. Deficits in "Cumulative Results of Operations" can be made up in the following year's assessments.

Tuition revenue is adjusted at year-end so that total tuition revenue equals expenses incurred by the Examiner Education office. Any difference between revenue and expense is reported in accounts payable to member organizations if revenue exceeds expense, and in accounts receivable from member organizations if expenses exceed revenue.

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

Capital Assets - Furniture and equipment is recorded at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from four to ten years. Upon the sale or other disposition of a depreciable asset, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recognized. The Central Data Repository (CDR), a software project, is recorded at cost (See Note 4).

Deferred Revenue - Deferred revenue represents cash collected and accounts receivable related to the CDR. (See Note 4)

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) TRANSACTIONS WITH MEMBER ORGANIZATIONS

Accounts Receivable from Member Organizations

	2005	2004
Board of Governors of the Federal Reserve System	\$ 306,704	\$ 407,074
Federal Deposit Insurance Corporation	1,426,385	2,251,800
National Credit Union Administration	0	0
Office of the Comptroller of the Currency	58,160	67,778
Office of Thrift Supervision	17,262	39,028
	<u>\$ 1,808,511</u>	<u>\$ 2,765,680</u>

The five member organizations are each assessed one-fifth of the expected cash needs based on the annual operating budget. The annual assessment for each member organization was:

	\$ 83,811	\$ 112,020
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The Council provides seminars in the Washington area and at regional locations throughout the country for member organization examiners and other agencies. The Council received tuition payments from member organizations in the amount of:

	1,858,296	1,673,468
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FRB provided administrative support services to the Council at a cost of:

	175,000	133,500
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Member organizations provided office space, data processing related to HMDA and CRA, and printing services to the Council. The Council paid member organizations:

	3,809,989	3,594,606
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The Council coordinates the production and distribution of the Uniform Bank Performance Reports (UBPR) through the Federal Deposit Insurance Corporation (FDIC). The Council is reimbursed for the direct cost of the operating expenses it incurs for this project.

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

Council employees are paid through the payroll systems of member organizations. Salaries and fringe benefits, including retirement benefit plan contributions disbursed on behalf of the Council are reimbursed in full to these organizations. The Council does not have any post-retirement or post-employment benefit liabilities since Council employees are included in the plans of the member organizations.

Member organizations are not reimbursed for the costs of personnel who serve as Council members and on the various task forces and committees of the Council. The value of these contributed services has not been included in the accompanying financial statements.

(4) CENTRAL DATA REPOSITORY (CDR)

In 2003, the Council entered into a ten year agreement with UNISYS, totaling approximately \$38,000,000, to enhance the methods and systems used to collect, validate, process and distribute Call Report information.

Capitalized Assets - CDR:

	<u>2005</u>	<u>2004</u>
CDR beginning balance	\$ 9,083,760	\$ 7,439,750
Additions	2,971,484	1,644,010
CDR ending balance	<u>\$12,055,244</u>	<u>\$ 9,083,760</u>

The CDR was placed into production in October 2005. At that time, the Council began depreciating the CDR project on the straight-line basis over its estimated useful life of sixty-three months. For 2005, the Council recorded \$569,297 in depreciation expense and recognized the same amount of deferred revenue. The value of the CDR asset includes the fully accrued and paid cost, including amounts withheld from payment for retainage in the amount of \$1,205,524, which is included in "Other accounts payable and accrued liabilities."

Other CDR Balances:

<u>Deferred revenue</u>	<u>2005</u>	<u>2004</u>
Beginning balance	\$ 9,083,760	\$ 7,439,750
Additions	2,971,484	1,644,010
Less: Revenue recognized	(569,297)	0
Ending balance	<u>\$11,485,947</u>	<u>\$ 9,083,760</u>
Current portion deferred revenue	\$ 2,277,189	\$ 486,630
Long-term deferred revenue	<u>9,208,758</u>	<u>8,597,130</u>
	<u>\$11,485,947</u>	<u>\$ 9,083,760</u>

The Council bills participating agencies for the full cost of the CDR project and records the amounts billed as deferred revenue (see Note 2).

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

Deferred revenue is amortized to match the depreciation expense charged. The amount reported for 2005, the year depreciation began, was \$569,297.

	2005	2004
Monthly amortization (CDR asset amortized over 63 months)	\$ 189,766	0
Recognized revenue (3 months)	\$ 569,297	0

Other accounts payable and accrued liabilities

The amount reported as other accounts payable and accrued liabilities includes \$1,428,574 in 2005 and \$2,474,760 in 2004 payable to UNISYS for the CDR project. The balance is payable to other vendors unrelated to the CDR project.

Revenues - Central Data Repository

The Council is funding the project by billing the three participating Council member organizations (FRB, FDIC, and OCC). OCC's participation in cost sharing will not begin until the UBPR portion of the CDR becomes operational.

CDR revenue in 2005 consists of \$569,297 from deferred revenue that matches the depreciation charged for the year and \$2,636,516 in hosting and maintenance fees.

Expenses - Professional fees

Beginning in 2005, hosting and maintenance fees totalling \$2,636,516 were charged to professional fees and reimbursed by participating members through billings included in the CDR revenue.

Capital expenditures as presented in the Statement of Cash Flows

CDR capital expenditures were \$2,971,484 in 2005 and \$1,644,010 in 2004. These amounts are included in the CDR asset total of \$12,055,244.

(5) DEFERRED RENT

In 1998, the Council entered into a lease for office space at 2000 K Street, Washington, DC. This lease contains rent abatements and scheduled rent increases. In 2005, the Council entered into a lease for office and classroom space at an FDIC facility that contains scheduled rent increases over the term of the lease. In accordance with accounting principles generally accepted in the United States of America, rent abatements and scheduled rent increases must be considered in determining the annual rent expense to be recognized. The deferred rent represents the difference between the actual lease payments and the rent expense recognized.

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

(6) OTHER REVENUE

	<u>2005</u>	<u>2004</u>
<u>Home Mortgage Disclosure Act (HMDA)</u>		
The Council recognized the following revenue from member organizations for the production and distribution of reports under the HMDA:	\$ 1,786,287	\$ 1,868,000
The Council recognized the following revenue from the Department of Housing and Urban Development's participation in the HMDA project:	503,004	444,426
The Council recognized the following revenue from the Mortgage Insurance Companies of America for performing HMDA related work:	258,257	260,847
The balance of the HMDA revenue for 2005 and 2004 was from sales to the public:	27,261	23,495
Total HMDA	<u>\$ 2,574,809</u>	<u>\$ 2,596,768</u>

Community Reinvestment Act (CRA)

The Council recognized revenue for support of operating expenses from the participating member agencies.

Uniform Bank Performance Report (UBPR)

The Council recognized revenue for coordinating and providing certain administrative support to the UBPR project.

Appraisal Subcommittee

The Council recognized revenue for providing space to the Appraisal Subcommittee.

(7) OPERATING LEASES

The Council entered into operating leases to secure office and classroom space. Minimum future rental commitments under those operating leases having an initial or remaining noncancellable lease term in excess of one year at December 31, 2005 are as follows:

2006	\$ 458,995
2007	467,203
2008	417,980
2009	255,261
2010	-
	<u>\$ 1,599,439</u>

Rental expenses under these operating leases were \$437,564 and \$525,972 in 2005 and 2004, respectively.



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Independent Auditors' Report on Internal Control over Financial Reporting

To the Federal Financial Institutions Examination Council:

We have audited the balance sheets of the Federal Financial Institutions Examination Council (the Council) as of December 31, 2005 and 2004, and the related statements of revenues and expenses and changes in cumulative results of operations, and cash flows for the years then ended, and have issued our report thereon dated March 7, 2006. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing our fiscal year 2005 audit, we considered the Council's internal control over financial reporting by obtaining an understanding of the Council's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards*. The objective of our audit was not to provide assurance on the Council's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

We noted certain additional matters that we reported to the management of the Council in a separate letter dated March 7, 2006.

This report is intended solely for the information and use of the Council's management, the Office of Inspector General of the Board of Governors of the Federal Reserve System, the Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 7, 2006



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance and Other Matters

To the Federal Financial Institutions Examination Council:

We have audited the balance sheets of the Federal Financial Institutions Examination Council (the Council) as of December 31, 2005 and 2004, and the related statements of revenues and expenses and changes in cumulative results of operations, and cash flows, for the years then ended, and have issued our report thereon dated March 7, 2006. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The management of the Council is responsible for complying with laws, regulations, and contracts applicable to the Council. As part of obtaining reasonable assurance about whether the Council's fiscal year 2005 financial statements are free of material misstatement, we performed tests of the Council's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the Council. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Council's management, the Office of Inspector General of the Board of Governors of the Federal Reserve System, the Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 7, 2006