



FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

Financial Statements

December 31, 2002

(With Independent Auditors' Report Thereon)



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, 2002 and 2001, 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 *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 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 Council at December 31, 2002 and 2001, 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 our reports dated March 5, 2003 on our consideration of the Council's internal control over financial reporting and its compliance with laws and regulations. Those reports are an integral part of an audit conducted in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

March 5, 2003



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FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

BALANCE SHEETS

<u>ASSETS</u>	As of December 31,	
	<u>2002</u>	<u>2001</u>
CURRENT ASSETS		
Cash	\$350,302	\$616,667
Accounts receivable from member organizations	623,428	811,360
Other accounts receivable	183,288	337,542
Total current assets	1,157,018	1,765,569
FURNITURE AND EQUIPMENT		
Furniture and equipment, at cost	98,672	273,849
Less accumulated depreciation	98,285	267,731
Net furniture and equipment	387	6,118
Total assets	<u>\$1,157,405</u>	<u>\$1,771,687</u>
 <u>LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities payable to member organizations (Note 3)	\$852,742	\$1,162,636
Other accounts payable and accrued liabilities	105,956	87,363
Accrued annual leave	30,522	28,568
Total current liabilities	989,220	1,278,567
DEFERRED RENT (Note 5)	157,792	150,157
Total liabilities	1,147,012	1,428,724
CUMULATIVE RESULTS OF OPERATIONS	10,393	342,963
Total liabilities and cumulative results of operations	<u>\$1,157,405</u>	<u>\$1,771,687</u>

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>2002</u>	<u>2001</u>
REVENUES		
Assessments on member organizations (Note 3)	\$1,500,000	\$1,465,000
Tuition	1,668,682	1,622,523
Other revenue (Note 4)	<u>3,251,873</u>	<u>2,980,125</u>
Total revenues	<u>6,420,555</u>	<u>6,067,648</u>
EXPENSES		
Salaries and related benefits	1,528,697	1,468,134
Data processing	3,682,607	3,376,177
Rental of office space	634,399	600,483
Professional fees	320,551	215,151
Books and subscriptions	161,800	157,691
Travel	95,157	80,402
Rental and maintenance of office equipment	84,681	48,436
Administration fees	69,593	66,117
Printing	62,641	47,802
Other seminar expenses	49,622	81,714
Office and other supplies	31,798	48,547
Postage	18,191	8,103
Depreciation and net losses on disposals	5,731	6,237
Telephone	4,007	(3,420)
Miscellaneous	<u>3,650</u>	<u>4,392</u>
Total expenses	<u>6,753,125</u>	<u>6,205,966</u>
RESULTS OF OPERATIONS	(332,570)	(138,318)
CUMULATIVE RESULTS OF OPERATIONS, Beginning of year	<u>342,963</u>	<u>481,281</u>
CUMULATIVE RESULTS OF OPERATIONS, End of year	<u><u>\$10,393</u></u>	<u><u>\$342,963</u></u>

See accompanying notes to financial statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
STATEMENTS OF CASH FLOWS

	For the years ended December 31,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
RESULTS OF OPERATIONS	(\$332,570)	(\$138,318)
Adjustments to reconcile results of operations to net cash provided by (used in) operating activities:		
Depreciation and net losses on disposals	5,731	6,237
(Increase) decrease in assets:		
Accounts receivable from member organizations	187,932	(304,318)
Other accounts receivable	154,254	(141,005)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities to member organizations	(309,894)	418,697
Accounts payable and accrued liabilities	18,593	(48,830)
Accrued annual leave	1,954	(11,536)
Deferred rent	7,635	14,585
	(266,365)	(204,488)
Net cash provided by (used in) operating activities and NET INCREASE (DECREASE) IN CASH	(266,365)	(204,488)
CASH BALANCE, Beginning of year	616,667	821,155
CASH BALANCE, End of year	\$350,302	\$616,667

Supplemental disclosures:

The Council retired fully depreciated furniture and equipment totalling \$175,177 in 2002.

See accompanying notes to financial statements.

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

(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 hereafter as member organizations, are as follows:

Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
National Credit Union Administration
Office of the Comptroller of the Currency
Office of Thrift Supervision

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.

(2) SIGNIFICANT ACCOUNTING POLICIES

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.

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
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

Furniture and Equipment - 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.

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

	2002	2001
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:	\$ 300,000	\$ 293,000
 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:	 1,622,287	 1,528,453
 The Board of Governors of the Federal Reserve System provided administrative support services to the Council at a cost of:	 69,593	 66,117
 Member organizations provided office space, data processing and printing services to the Council. The Council paid member organizations:	 3,957,242	 3,651,730

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.

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.

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

(4) OTHER REVENUE

	2002	2001
<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 Home Mortgage Disclosure Act (HMDA):	\$ 1,275,782	\$ 1,094,758
The Council recognized the following revenue from the Department of Housing and Urban Development's participation in the HMDA project:	338,426	337,125
The Council recognized the following revenue from the Mortgage Insurance Companies of America for performing HMDA related work:	256,992	271,917
The balance of the HMDA revenue for 2002 and 2001 was from sales to the public:	38,122	32,149
Total HMDA	\$ 1,909,322	\$ 1,735,949
<u>Uniform Bank Performance Report (UBPR)</u>		
The Council recognized the following revenue for coordinating and providing certain administrative support to the UBPR project:	282,396	273,122
<u>Appraisal Subcommittee</u>		
The Council recognized the following revenue for providing space and certain administrative support to the Appraisal Subcommittee:	210,291	189,387
<u>Community Reinvestment Act</u>		
The Council recognized the following revenue for support of operating expenses from the participating member agencies:	849,293	781,657
<u>Miscellaneous</u>	571	10
	\$ 3,251,873	\$ 2,980,125

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

(5) DEFERRED RENT

In 1998, the Council entered into a lease for office space. This lease contains rent abatements and scheduled rent increases, which, in accordance with accounting principles generally accepted in the United States of America, must be considered in determining the annual rent expense to be recognized by the Council. The deferred rent represents the difference between the actual lease payments and the rent expense recognized.

(6) COMMITMENTS

The Council entered into operating leases to secure office and classroom space for periods ranging from two to ten years. Minimum future rental commitments under those operating leases having an initial or remaining noncancellable lease term in excess of one year at December 31, 2002 are as follows:

2003	330,555
2004	347,624
2005	354,575
2006	361,526
2007	368,476
After 2007	280,267
	<u>\$ 2,043,023</u>

Rental expenses under these operating leases were \$569,863 and \$537,519 in 2002 and 2001, 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 financial statements of the Federal Financial Institutions Examination Council (the Council) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated March 5, 2003. 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 2002 audit, we considered the Council's internal control over financial reporting by obtaining an understanding of the Council's internal control, determining whether these 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. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses under standards established 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. We noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the members of the Council and its management, the U.S. Office of Management and Budget, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 5, 2003





2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance with Laws and Regulations

To the Federal Financial Institutions Examination Council:

We have audited the financial statements of the Federal Financial Institutions Examination Council (the Council) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated March 5, 2003. 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 and regulations applicable to the Council. As part of obtaining reasonable assurance about whether the Council's 2002 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the members of the Council and its management, the U.S. Office of Management and Budget, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 5, 2003

