FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

Financial Statements

December 31, 2006 and 2005

(With Independent Auditors' Report Thereon)

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

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, 2006 and 2005, and the related statements of revenues and expenses and changes in cumulative results of operations, and cash flows (hereinafter referred to as "financial statements") 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, 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, as of December 31, 2006 and 2005, and the results of its operations, and its cash flows, for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 7, 2007, 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, 2007

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

BALANCE SHEETS

ASSETS	As of December 31, 2006	As of December 31, 2005
CURRENT ASSETS		
Cash	$ 656,600	$ 598,259
Accounts receivable from member organizations (Note 3)	997,342	1,808,511
Other accounts receivable	243,181	557,347
Total current assets	1,897,123	2,964,117
CAPITAL ASSETS		
Furniture and equipment, at cost	56,121	60,446
Central Data Repository, at cost (Note 4)	12,905,335	12,055,244
Less accumulated depreciation	(2,947,171)	(629,743)
Net capital assets	10,014,285	11,485,947
Total assets	$11,911,408	$14,450,064

LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS	2006	2005
CURRENT LIABILITIES		
Accounts payable and accrued liabilities payable to member organizations	$ 797,093	$ 1,099,400
Other accounts payable and accrued liabilities (Note 4)	645,438	1,482,102
Accrued payroll and annual leave	313,038	297,202
Deferred revenue (current portion) (Note 4)	2,355,548	2,277,189
Total current liabilities	4,111,117	5,155,893
LONG-TERM LIABILITIES		
Deferred revenue (non-current portion) (Note 4)	7,658,737	9,208,758
Deferred rent (Note 5)	58,164	75,604
Total long-term liabilities	7,716,901	9,284,362
Total liabilities	11,828,018	14,440,255
CUMULATIVE RESULTS OF OPERATIONS	83,390	9,809
Total liabilities and cumulative results of operations	$11,911,408	$14,450,064

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, 2006	2005
REVENUES		
Central Data Repository (Note 4)	$ 5,650,751	$ 3,205,813
Home Mortgage Disclosure Act (Note 6)	2,777,980	2,574,809
Tuition	2,066,960	1,991,263
Community Reinvestment Act	800,839	821,390
Uniform Bank Performance Report	595,781	524,350
Assessments on member organizations (Note 3)	548,800	419,055
Appraisal Subcommittee	189,397	183,566
Total revenues	12,630,508	9,720,246
EXPENSES		
Professional fees (Note 4)	4,041,444	3,241,435
Data processing	3,888,362	3,623,133
Depreciation (Note 4)	2,321,753	569,297
Salaries and related benefits	1,349,310	1,303,342
Rental of office space	469,860	437,564
Administration fees (Note 3)	183,000	175,000
Travel	98,582	116,098
Books and subscriptions	98,160	98,361
Rental and maintenance of office equipment	33,293	50,775
Printing	26,210	14,468
Office and other supplies	21,026	35,506
Other seminar expenses	11,801	71,285
Postage	10,571	17,195
Miscellaneous	3,555	1,294
Total expenses	12,556,927	9,754,753
RESULTS OF OPERATIONS	73,581	(34,507)
CUMULATIVE RESULTS OF OPERATIONS, Beginning of year	9,809	44,316
CUMULATIVE RESULTS OF OPERATIONS, End of year	$ 83,390	$ 9,809

See accompanying notes to financial statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

STATEMENTS OF CASH FLOWS

	For the years ended December 31, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
RESULTS OF OPERATIONS	$ 73,581	$ (34,507)
Adjustments to reconcile results of operations to net cash provided by operating activities:		
Depreciation	2,321,753	569,297
(Increase) decrease in assets:		
Accounts receivable from member organizations	811,169	957,169
Other accounts receivable	314,166	(325,936)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities to member organizations	(302,307)	348,351
Other accounts payable and accrued liabilities	(836,664)	(1,029,787)
Accrued payroll and annual leave	15,836	79,466
Deferred revenue (current and non-current)	(1,471,662)	2,402,187
Deferred rent	(17,440)	(4,441)
Net cash provided by operating activities	908,432	2,961,799
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures (Note 4)	(850,091)	(2,971,484)
Net cash used in investing activities	(850,091)	(2,971,484)
NET INCREASE (DECREASE) IN CASH	58,341	(9,685)
CASH BALANCE, Beginning of year	598,259	607,944
CASH BALANCE, End of year	$ 656,600	$ 598,259

See accompanying notes to financial statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

(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)

In accordance with the Financial Services Regulatory Relief Act of 2006, a representative state regulator was added as a full voting member of the FFIEC in October 2006.

The Council was given additional statutory responsibilities by section 340 of the Housing and Community Development Act of 1980, Public Law 96-399. Among these responsibilities are the implementation of a system to facilitate public access to data that depository institutions must disclose under the Home Mortgage Disclosure Act of 1975 (HMDA) and the aggregation of annual HMDA data, by census tract, for each metropolitan statistical area.

<u>Appraisal Subcommittee</u>

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 Council prepares its financial statements in accordance with accounting principles generally accepted in the United States 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.

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

	2006	2005
Board of Governors of the Federal Reserve System	$ 169,562	$ 306,704
Federal Deposit Insurance Corporation	583,844	1,426,385
National Credit Union Administration	63,880	0
Office of the Comptroller of the Currency	111,909	58,160
Office of Thrift Supervision	68,147	17,262
	$ 997,342	$ 1,808,511

	2006	2005
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:	$ 109,760	$ 83,811
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:	1,933,215	1,858,296
FRB provided administrative support services to the Council at a cost of:	183,000	175,000
Member organizations provided office space, data processing related to Home Mortgage Disclosure Act (HMDA) and Community Reinvestment Act (CRA), and printing services to the Council. The Council paid member organizations:	3,674,682	3,809,989

The Council coordinates the production and distribution of the Uniform Bank Performance Reports (UBPR) through the FDIC. The Council is reimbursed for the direct cost of the operating expenses it incurs for this project.

The Council does not directly employ personnel but rather member organizations provide personnel to support Council operations. These personnel are paid through the payroll systems of member organizations. Salaries and fringe benefits, including retirement benefit plan contributions, are reimbursed to these organizations. The Council does not have any post-retirement or post-employment benefit liabilities since Council personnel 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

In 2003, the Council entered into a ten year agreement with UNISYS, totaling approximately $40 million, to enhance the methods and systems used to collect, validate, process, and distribute Call Report information, and to store this information in a Central Data Respository (CDR)

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. The Council records depreciation expense and recognizes the same amount of deferred revenue. The value of the CDR asset includes the fully accrued and paid cost.

	2006	2005
Capital asset CDR		
Beginning balance	$11,955,244	$ 9,083,760
Capital expenditures	358,000	2,871,484
Software in use	12,313,244	11,955,244
Software in process	592,091	100,000
Total asset	$12,905,335	$12,055,244
Other accounts payable and accrued liabilities		
Payable to UNISYS for the CDR project	$ 576,443	$ 1,428,574
Other vendors unrelated to the CDR project	68,995	53,528
Total other accounts payable and accrued liabilities	$ 645,438	$ 1,482,102

Revenues - Central Data Repository

The Council is funding the project by billing the three participating Council member organizations (FRB, FDIC, and OCC) (See Note 2). The OCC's participation in cost sharing will not begin until the UBPR portion of the CDR becomes operational.

	2006	2005
Deferred revenue:		
Beginning balance	$11,485,947	$ 9,083,760
Additions	850,091	2,971,484
Less: Revenue recognized	(2,321,753)	(569,297)
Ending balance	$10,014,285	$11,485,947
Current portion deferred revenue	$ 2,355,548	$ 2,277,189
Long-term deferred revenue	7,658,737	9,208,758
	$10,014,285	$11,485,947
Total CDR revenue:		
Deferred revenue	$ 2,321,753	$ 569,297
Hosting and maintenance fees	3,328,998	2,636,516
Total CDR revenue	$ 5,650,751	$ 3,205,813

	2006	2005
Professional fees		
Hosting and maintenance fees for the CDR project	$ 3,328,998	$ 2,636,516
Other professional fees unrelated to the CDR project	712,446	604,919
Total professional fees	$ 4,041,444	$ 3,241,435
Depreciation		
Depreciation for the CDR project	$ 2,321,753	$ 569,297
Other depreciation unrelated to the CDR project	0	0
Total depreciation	$ 2,321,753	$ 569,297
Average monthly amortization	$ 193,479	$ 189,766

(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.

(6) OTHER REVENUE

	2006	2005
Home Mortgage Disclosure Act (HMDA)		
The Council recognized the following revenue from member organizations for the production and distribution of reports under the HMDA:	$ 1,880,259	$ 1,786,287
The Council recognized the following revenue from the Department of Housing and Urban Development's participation in the HMDA project:	589,547	503,004
The Council recognized the following revenue from the Mortgage Insurance Companies of America for performing HMDA related work:	287,481	258,257
The balance of the HMDA revenue for 2006 and 2005 was from sales to the public:	20,693	27,261
Total HMDA	$ 2,777,980	$ 2,574,809

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, 2006 are as follows:

2007	$ 467,203
2008	417,980
2009	255,261
2010	0
2011	0
	$ 1,140,444

Rental expenses under these operating leases were $469,860 and $437,564 in 2006 and 2005, respectively.

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Independent Auditors' Report on Internal Control

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, 2006 and 2005, and the related statements of revenues and expenses and changes in cumulative results of operations, and cash flows (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated March 7, 2007.

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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Council is responsible for establishing and maintaining effective internal control. In planning and performing our 2006 audit, we considered the Council's internal control over financial reporting as a basis for designing 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 express an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Council's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Council's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Council's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain matters that we reported to the management of the Council in a separate letter dated March 7, 2007.

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 U.S. 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, 2007

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, 2006 and 2005, and the related statements of revenues and expenses and changes in cumulative results of operations, and cash flows (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated March 7, 2007.

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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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 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 the 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 those provisions 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 U.S. 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, 2007