2021-FMIC-B-003
February 25, 2021

Board of Governors of the Federal Reserve System

Federal Financial Institutions Examination Council Financial Statements as of and for the Years Ended December 31, 2020 and 2019, and Independent Auditors' Reports

Office of Inspector General
Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection

Office of Inspector General
Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection

February 25, 2021

Federal Financial Institutions Examination Council
3501 Fairfax Drive, B-7081a
Arlington, VA 22226-3550

Dear Members of the Federal Financial Institutions Examination Council:

This letter transmits the *Independent Auditors' Report on the Financial Statements* and *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters* (Independent Auditors' Reports) prepared by KPMG LLP on the Federal Financial Institutions Examination Council's (FFIEC) financial statements. We contracted with KPMG to audit the financial statements of the FFIEC as of and for the years ended December 31, 2020 and 2019.

The contract requires the audit to be performed in accordance with the auditing standards generally accepted in the United States of America and in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the comptroller general of the United States. We reviewed and monitored the work of KPMG to ensure compliance with the contract. KPMG is responsible for the accompanying Independent Auditors' Reports, dated February 25, 2021.

We do not express an opinion on the FFIEC's financial statements. In addition, we do not draw conclusions on the Independent Auditors' Reports.

Sincerely,

Fred Gibbs for

Mark Bialek
Inspector General

cc: Judith Dupre, Executive Secretary, FFIEC
Mary McLeod, Chairman, FFIEC Legal Advisory Group, and General Counsel, Bureau of Consumer Financial Protection
Ricardo A. Aguilera, Chief Financial Officer, Board of Governors of the Federal Reserve System

Federal Financial Institutions Examination Council

Financial Statements as of and for the Years
Ended December 31, 2020 and 2019, and
Independent Auditors' Reports

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

The Federal Financial Institutions Examination Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the Federal Financial Institutions Examination Council (the Council), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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, in accordance with 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Council has changed its method of accounting for leases as of January 1, 2020 due to the adoption of Accounting Standards Codification Topic 842, Leases, and the related amendments.

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, 2020 and 2019, and its operations and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2020, we considered the Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements are free from material misstatement, we performed tests of its 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. 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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Council's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, District of Columbia
February 25, 2021

Federal Financial Institutions Examination Council
Balance Sheets

		As of December 31,		
		2020		2019
Assets				
Current assets:				
Cash	$	2,288,820	$	2,171,527
Accounts receivable from member agencies		534,455		1,125,726
Accounts receivable from non-member agencies – net		-		14,525
Total current assets		2,823,275		3,311,778
Non-current assets:				
Operating lease real estate right-of-use asset		1,681,240		-
Operating lease equipment right-of-use assets		188,492		-
Total non-current assets		1,869,732		-
Total assets	$	4,693,007	$	3,311,778
Liabilities and cumulative results of operations				
Current liabilities:				
Accounts payable and accrued liabilities payable to member agencies	$	1,072,474	$	1,552,020
Accounts payable and accrued liabilities payable to non-member agencies		301,552		506,394
Accrued annual leave		123,621		81,296
Operating lease payable		379,890		-
Total current liabilities		1,877,537		2,139,710
Long-term liabilities:				
Operating lease payable and deferred rent		1,489,842		8,416
Total long-term liabilities		1,489,842		8,416
Total liabilities		3,367,379		2,148,126
Cumulative results of operations		1,325,628		1,163,652
Total liabilities and cumulative results of operations	$	4,693,007	$	3,311,778

See notes to financial statements.

Federal Financial Institutions Examination Council
Statements of Operations

	For the years ended December 31,	
	2020	2019
Revenues:		
Central Data Repository	$ 3,461,665	$ 3,551,781
Tuition	3,281,809	4,600,550
Assessments on member agencies	1,529,203	1,484,705
Community Reinvestment Act	693,261	655,973
Uniform Bank Performance Report	614,292	618,424
Other Revenues	594,707	608,767
Total revenues	10,174,937	11,520,200
Expenses:		
Professional fees	4,067,152	5,122,144
Salaries and related benefits	3,252,052	3,152,487
Data processing	1,287,968	1,264,740
Administration fees	914,573	905,540
Rental of office space	367,926	367,927
Depreciation	-	86,706
Travel	28,580	251,837
Rental and maintenance of office equipment	73,574	103,079
Other seminar expenses	13,117	96,265
Office and other supplies	6,728	29,143
Printing	209	6,905
Miscellaneous	1,082	1,920
Total expenses	10,012,961	11,388,693
Results of operations	161,976	131,507
Cumulative results of operations – beginning of year	1,163,652	1,032,145
Cumulative results of operations – end of year	$ 1,325,628	$ 1,163,652

See notes to financial statements.

Federal Financial Institutions Examination Council
Statements of Cash Flows

	For the years ended December 31,	
	2020	2019
Cash flows from (used in) operating activities:		
Results of operations	$ 161,976	$ 131,507
Adjustments to reconcile results of operations to net cash from operating activities:		
Depreciation	-	86,706
Net operating lease assets and payables (current and non-current) and deferred rent	(8,416)	(4,102)
(Increase) decrease in assets:		
Accounts receivable from member agencies	591,271	(533,986)
Accounts receivable from non-member agencies	14,525	(5,751)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities payable to member agencies	(479,546)	815,193
Other accounts payable and accrued liabilities payable to non-member agencies	(204,842)	(7,484)
Accrued annual leave	42,325	28,458
Deferred revenue (current and non-current)	-	(86,706)
Net cash from (used in) operating activities	117,293	423,835
Net increase (decrease) in cash	117,293	423,835
Cash balance – beginning of year	2,171,527	1,747,692
Cash balance – end of year	$ 2,288,820	$ 2,171,527

See notes to financial statements.

(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 Council has six voting members. The five federal agencies represented on the Council during 2020, referred to collectively as member agencies, are as follows:

- Board of Governors of the Federal Reserve System (FRB)
- Consumer Financial Protection Bureau (the Bureau)
- Federal Deposit Insurance Corporation (FDIC)
- National Credit Union Administration (NCUA)
- Office of the Comptroller of the Currency (OCC)

In accordance with the Financial Services Regulatory Relief Act of 2006, a rotating representative state regulator was added as a full voting member of the Council 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 is the implementation of a system, in consultation with the Secretary of the Department of Housing and Urban Development (HUD), 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.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law. This legislation gave the Bureau general rule-writing responsibility for federal consumer financial laws and the HMDA supervisory and enforcement authority. The Bureau, as part of these responsibilities, developed a new HMDA processing system that replaced the HMDA processing system maintained by the FRB. The Council is performing the collection and billing activity for the new HMDA processing system developed by the Bureau. The activity includes the member agencies and HUD. As a collecting entity, the Council does not recognize the transfers from member agencies as revenue nor does the Council use the collections to fund Council expenses; the funds are transferred to the Bureau.

The Council is performing the collection and billing activity for the Computational Tools product services developed by the FRB. The activity includes the member agencies. As a collecting agency, the Council does not recognize the transfers from member agencies as revenue nor does the Council use the collections to fund Council expenses; the funds are transferred to the FRB.

The Council's financial statements do not include financial data for the Council's Appraisal Subcommittee (the Subcommittee). The Subcommittee was created pursuant to Public Law 101-73, title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. Although it is a subcommittee of the Council, the Appraisal Subcommittee maintains separate financial records and administrative processes. The Council is not responsible for any debts incurred by the Appraisal Subcommittee, nor are Appraisal Subcommittee funds available for use by the Council.

(2) Significant Accounting Policies

Basis of Accounting — The Council prepares its financial statements in accordance with accounting principles generally accepted in the United States (GAAP).

Revenues — Assessments are made on member organizations to fund the Council's operations based on expected cash needs and are recognized as revenue in the period in which they are assessed. Amounts over- or under-assessed due to differences between assessments and actual expenses are presented in the Council's Statements of Operations in the "Cumulative results of operations" line item during the year and then may be used to offset or increase the next year's assessment. Deficits in "Cumulative results of operations" can be recouped in the following year's assessments.

The Council provides training seminars in the Washington, D.C. area and at locations throughout the country for member organizations, other federal agencies, and state organizations. The Council recognizes revenue from member agencies for the production and distribution of the Uniform Bank Performance Reports (UBPR) through the FDIC. Tuition and UBPR revenue are adjusted at year-end to match expenses incurred as a result of providing education classes and UBPR services. For differences between revenues and expenses, member agencies are assessed an additional amount or credited a refund based on each member's proportional cost for the examiner education and UBPR budget. The Council recognizes revenue from member agencies for expenses incurred related to the Central Data Repository (CDR) processing system, the Community Reinvestment Act (CRA) processing system, and the Geocoder and Census Product Services (Other Revenues).

Equipment and Software — 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 three to five years. Upon the sale or other disposition of a depreciable asset, the cost and related accumulated depreciation are removed and any gain or loss is recognized. Costs incurred to acquire software are capitalized based on the purchase price. Costs incurred during the application development stage to develop internal-use software are capitalized based on the cost of direct services and materials associated with designing, coding, installing, and testing the software. Capitalized software costs are amortized on a straight-line basis over the estimated useful lives of the software applications, which generally range from two to five years. Maintenance costs and minor replacements related to software are charged to operating expense in the year incurred. The CDR system, which consists of internally developed software projects, are recorded at cost less accumulated depreciation; unique useful lives are applied to these assets as appropriate.

Estimates — The preparation of financial statements in conformity with GAAP 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. Significant items subject to such estimates include useful lives of the CDR and the HMDA processing systems previously maintained by the FRB.

Prepaid Expenses — The Council recognizes expenses as prepaid for costs paid in advance that will be expensed with the passage of time or upon the occurrence of a triggering event in future periods.

Commitments and contingencies — Liabilities for loss contingencies arising from claims, assessments, litigation, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Tax Exempt Status — The Council is not subject to state or local income taxes, and federal law does not impose taxes on the Council's income.

Recently Issued Accounting Standards —In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842), which supersedes the existing guidance for lease accounting, *Leases* (Topic 840). ASU 2016-02 requires lessees to recognize leases on their balance sheets (through right-of-use (ROU) assets and lease liabilities), and leaves lessor accounting largely unchanged. The Council adopted the provisions of Topic 842 on December 31, 2020, using the modified retrospective approach and the option presented under ASU 2018-11 to transition only active leases as of the December 31, 2020 adoption date, with a cumulative effect adjustment recorded as of that date. All comparative periods prior to December 31, 2020 retain the financial reporting and disclosure requirements of Topic 840.

The Council elected to utilize the transition package of practical expedients permitted under Topic 842, which, among other things, allowed the Council to carry forward the historical lease classification. Additionally, the Council made an accounting policy election to exempt short-term leases (with an initial term of 12 months or less) from the provisions of Topic 842, which resulted in recognition of the related lease payments on a straight-line basis over the lease term, consistent with prior treatment under Topic 840. The Council did not elect the "hindsight" practical expedient when determining the lease terms under Topic 842.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU), 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This update was issued to create common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The guidance is applicable to all contracts for the transfer of goods or services regardless of industry or type of transaction. This update requires recognition of revenue in a manner that reflects the consideration that the entity expects to receive in return for the transfer of goods or services to customers. Subsequently, the FASB issued a number of related ASUs including ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*; ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*; and ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. This revenue recognition accounting guidance was effective for the Council for the year ended December 31, 2019, and the relevant disclosures have been incorporated into the current disclosures, as applicable.

(3) Selected Transactions with Member Agencies

	2020	2019
Accounts receivable:		
Board of Governors of the Federal Reserve System	$ 135,030	$ 257,255
Consumer Financial Protection Bureau	19,626	34,155
Federal Deposit Insurance Corporation	210,345	395,419
National Credit Union Administration	19,626	34,135
Office of the Comptroller of the Currency	149,828	404,782
	$ 534,455	$ 1,125,746
Accounts payable and accrued liabilities:		
Board of Governors of the Federal Reserve System	$ 538,629	$ 1,151,325
Consumer Financial Protection Bureau	10,349	9,658
Federal Deposit Insurance Corporation	263,775	242,205
National Credit Union Administration	39,218	42,978
Office of the Comptroller of the Currency	220,503	105,854
	$ 1,072,474	$ 1,552,020
Operations:		
Council operating expenses reimbursed by members	$ 1,529,203	$ 1,484,705
FRB-provided administrative support	$ 914,573	$ 905,540
FRB-provided data processing	$ 1,287,968	$ 1,264,740
Tuition revenue:		
Member tuition	$ 3,212,652	$ 4,461,675

Member agencies of the Council detail personnel to support Council operations. The salaries and related costs presented on the Statement of Operations represent the amounts which the Council has reimbursed member agencies. These detailed personnel are paid through the payroll systems of their respective member agency. The Council does not have any post-retirement or post-employment benefit liabilities since Council personnel are included in the plans of the member agencies.

Member agencies 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 is not included in the accompanying financial statements.

(4) Central Data Repository

In 2003, the Council entered into an agreement with Unisys to enhance the methods and systems used to collect, validate, process, and distribute Call Report information used by member organizations, and to store this information in the CDR. The CDR was placed into service in October 2005. At that time, the Council began depreciating the CDR on a straight-line basis over its estimated useful life of 63 months. In 2009, the Council reevaluated the useful life of the CDR and decided to extend its estimated useful life by an additional 36 months based on enhanced functionality of the software. In 2013, the Council again reevaluated the useful life of the CDR and decided to extend its estimated useful life by an additional 12 months to December 31, 2014. In 2014, the Council added additional enhancements of $688,281 and extended the useful life of the asset, including the enhancements, for an additional 56 months. The Council similarly extended the period of the associated deferred revenue. The CDR asset value is $21,839,856 and is fully depreciated. The Council also pays for hosting and maintenance expenses for the CDR and recognizes the associated revenue from members.

CDR Financial Activity — The Council is funding the project by billing the three participating Council member agencies (FRB, FDIC, and OCC). The accounts payable and accrued liabilities related to the CDR is $270,000 and $468,000 as of December 31, 2020 and 2019, respectively.

(5) Leases

In February 2021, the Council executed the option to extend for another five years an operating lease with the FDIC to secure office and classroom space. In 2018, the Council entered into operating leases for copier equipment. These leases have remaining terms of 3 to 5 years. Adoption of Topic 842 resulted in the recording of ROU assets and corresponding lease liabilities of $1,869,732 each as of December 31, 2020. The adoption of Topic 842 did not materially impact the Council's net earnings and had no impact on its cash flows. The Council's current lease arrangements expire through 2025.

The Council's lease population does not include any residual value guarantees, and therefore none were considered in the calculation of the ROU and lease liability balances. The Council has leases that contain variable payments, most commonly in the form of common area maintenance charges, which are based on actual costs incurred. These variable payments were excluded from the calculation of the ROU asset and lease liability balances since they are not fixed or in-substance fixed payments.

For leases with terms greater than 12 months, the FFIEC records the related ROU assets and lease liabilities at the present value of lease payments over the lease terms. For leases with an initial term of 12 months or less (with purchase options or extension options that are not reasonably certain to be exercised), the Council does not record them on the balance sheet, but instead recognizes lease expense on a straight-line basis over the terms of the leases.

Lease cost. The Council's lease cost was comprised of the following components for the year ended December 31, 2020:

Operating lease cost	$	388,076
Variable lease cost		53,425
Total lease cost	$	441,500

Lease commitments. The Council's future minimum lease payments required under operating leases as of December 31, 2020 were as follows:

	Operating Leases
2021	$ 388,056
2022	405,407
2023	398,650
2024	346,556
2025	351,349
Total lease payments	1,890,019
Less imputed interest	20,287
Present value of lease payments	1,869,732
Less current maturities of lease obligations	379,890
Long-term lease obligations	$ 1,489,842

In order to calculate the ROU asset and lease liability for a lease, Topic 842 requires that a lessee apply a discount rate equal to the rate implicit in the lease whenever that rate is readily determinable. The Council's lease agreements do not provide a readily determinable implicit rate, nor is the rate available to the Council from its lessors. Therefore, as permitted under Topic 842 for non-public business entities in such situations, management estimates the Council's risk-free rate (U.S. Treasury rate), as determined using a period comparable with that of the lease term. The risk-free rate, which is based on information available at either the implementation date of Topic 842 or at lease commencement for leases entered into subsequently, is used to discount the remaining lease payments to present value.

Additional lease information. Additional information related to the Council's leases as of December 31, 2020 was as follows:

Weighted Average Remaining Lease Term	
Operating leases	4.78 years
Weighted Average Discount Rate	
Operating leases	0.49 %

Supplemental cash flow information. Supplemental cash flow information related to the Council's leases during the year ended December 31, 2020 was as follows:

Cash paid for amounts included in measurement of lease liabilities:	
Operating cash flows from operating leases	$ 398,678

(6) Subsequent Events

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2020. Subsequent events were evaluated through February 25, 2021, which is the date the financial statements were available to be issued.

* * * * * *