

*2010
Financial Report*



*Office of Thrift
Supervision*

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements	3
Notes to Financial Statements	6
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	15



LANI EKO & COMPANY, CPAs, PLLC
110 S. Union Street, Suite 301
Alexandria, VA 22314

Phone: (703) 647-7444
Fax: (866) 665-7269
www.laniekocpas.com

INDEPENDENT AUDITOR'S REPORT

To the Inspector General
U.S. Department of the Treasury:

We have audited the accompanying statements of financial position of the U.S. Department of the Treasury, Office of Thrift Supervision (OTS) as of September 30, 2010 and 2009, and the related statements of operations and changes in net position, and cash flows for the years then ended. These financial statements are the responsibility of the OTS'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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and the OMB Bulletin No. 07-04 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 the 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.

As discussed in Note 1 to the financial statements, in accordance with the provisions of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, Public Law No: 111-203, effective July 20, 2011, OTS will cease operations and its functions transfer to the Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, and the Board of Governors of the Federal Reserve System.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the OTS as of September 30, 2010 and 2009, 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 report dated October 29, 2010, on our consideration of the OTS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. The purpose of that report 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Lani Eko & Company, CPAs, PLLC

October 29, 2010
Alexandria, Virginia

UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION
STATEMENTS OF FINANCIAL POSITION
(In thousands)

	As of September 30	
	2010	2009
Assets		
Cash and cash equivalents (Note 3)	\$ 138,443	\$ 127,667
Accrued interest receivable	2,028	2,176
Accounts receivable	510	202
Investments held to maturity (Note 4)	213,861	232,109
Property and equipment, net (Note 5)	28,293	28,440
Other assets	1,327	1,750
Total Assets	\$ 384,462	\$ 392,344
Liabilities and Net Position		
Liabilities		
Accounts payable	\$ 1,312	\$ 2,585
Accrued annual leave	12,921	12,504
Workers' compensation liability (Note 6)	3,196	3,655
Deferred compensation liability (Note 7)	287	405
Deferred assessment revenue	51,310	58,754
Deferred rent credit	2,015	2,050
Post-retirement benefit liability (Note 8)	20,481	19,247
Other retirement plan liabilities (Note 9)	8,380	6,343
Payroll, benefits, and withholding	8,692	8,086
Other accrued liabilities (Note 10)	3,296	3,908
Total Liabilities	\$ 111,890	\$ 117,537
Net Position		
Assumed capital	\$ 41,037	\$ 41,037
Retained earnings	231,535	233,770
Total Net Position (Note 11)	\$ 272,572	\$ 274,807
Total Liabilities and Net Position	\$ 384,462	\$ 392,344

The accompanying notes are an integral part of these financial statements.

UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION
STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION
For the Years Ended September 30
(In thousands)

	For the Years Ended September 30	
	2010	2009
Revenues		
Industry assessments	\$ 214,422	\$ 240,112
Examination, application, and security filing fees	3,984	3,774
Interest (Notes 3 & 4)	4,656	5,516
Rental income (Note 12)	5,690	5,661
Other	1,060	917
	<u>229,812</u>	<u>255,980</u>
Total Revenues	<u>\$ 229,812</u>	<u>\$ 255,980</u>
Expenses		
Personnel compensation	\$ 121,631	\$ 127,087
Benefits (Note 9)	62,924	52,763
Rent, communication, and utilities (Note 13)	7,270	8,262
Travel and transportation	17,010	17,941
Services	8,358	8,713
Data processing	2,586	3,095
Building expenditures	5,070	5,222
Office equipment and software	2,538	2,856
Miscellaneous	3,127	3,713
Depreciation and amortization	1,533	1,994
	<u>232,047</u>	<u>231,646</u>
Total Expenses	<u>\$ 232,047</u>	<u>\$ 231,646</u>
Excess of (Expenses over Revenues) Revenues over Expenses	<u>\$ (2,235)</u>	<u>\$ 24,334</u>
Net Position, Beginning Balance	<u>274,807</u>	<u>250,473</u>
Net Position, Ending Balance	<u>\$ 272,572</u>	<u>\$ 274,807</u>

The accompanying notes are an integral part of these financial statements.

UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION
STATEMENT OF CASH FLOWS
For the Years Ended September 30
(In thousands)

	For the Years Ended September 30	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of (expenses over revenues) revenue over expenses	\$ (2,235)	\$ 24,334
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Amortization of net bond premium	3,093	2,656
Depreciation and amortization	1,533	1,994
Changes in assets and liabilities:		
(Increase)/decrease in receivables	(160)	62
Decrease/(increase) in other assets	423	(736)
(Decrease)/increase in accounts payable	(1,273)	(1,663)
(Decrease)/increase in other liabilities	(4,374)	(6,281)
Net cash (used in) provided by operating activities	\$ (2,993)	\$ 20,366
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	\$ (34,846)	\$ (85,863)
Maturities of investments	50,000	35,000
Purchase of equipment	(1,385)	-
Net cash provided by (used in) investing activities	\$ 13,769	\$ (50,863)
Net cash provided by (used in) operating and investing activities	\$ 10,776	\$ (30,497)
Cash and cash equivalents, beginning of year	127,667	158,164
Cash and cash equivalents, end of year	\$ 138,443	\$ 127,667

The accompanying notes are an integral part of these financial statements.

**UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION**

NOTES TO FINANCIAL STATEMENTS

1. REPORTING ENTITY

The Office of Thrift Supervision (OTS) was created when the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) abolished the Federal Home Loan Bank Board (FHLBB) and transferred all examination and supervisory activities to OTS under the Department of the Treasury. The primary functions of OTS are to: (1) charter federal savings and loan associations; (2) adopt regulations governing the operation of the thrift industry; (3) conduct examinations of federal and state chartered savings institutions and their holding companies; and (4) supervise compliance with federal laws and regulations and OTS directives, taking measures needed to enforce such compliance and rehabilitate troubled institutions. FIRREA provides that OTS assess the institutions it regulates to recapture operating costs. Assessments are collected semiannually on January 31 and July 31.

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, which includes the Enhancing Financial Institution Safety and Soundness Act of 2010 (the "Act"). The Act abolishes OTS and transfers its duties to the Office of the Comptroller of the Currency (OCC), the Federal Reserve and the Federal Deposit Insurance Corporation (FDIC) on July 21, 2011 (the "transfer date"). Under the Act, the transfer of OTS functions to the OCC includes rule making authority, personnel, property and funds relating to Federal savings associations.

Upon enactment of the Act, the OTS must pay the OCC for such amounts the OCC determines necessary for expenses associated with the transfer of functions, including the expenses for personnel, property and administrative services, during the period beginning on the date of the enactment of the Act and ending on the transfer date.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

OTS has historically prepared its financial statements in accordance with generally accepted accounting principles based upon accounting standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. In October 1999, the American Institute of Certified Public Accountants designated the Federal Accounting Standards Advisory Board (FASAB) as the standards-setting body for financial statements of federal government entities with respect to the establishment of generally accepted accounting principles. FASAB has indicated, in the Statement of Federal Financial Accounting Standards (SFFAS) No. 34 "The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board," that financial statements prepared based upon accounting standards published by the FASB may also be regarded as being in accordance with generally accepted accounting principles for those federal entities such as OTS that have issued financial statements based upon FASB accounting standards in the past. Accordingly, consistent with historical reporting, OTS financial statements are presented in accordance with accounting standards published by FASB.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of OTS's account at the Department of the Treasury and funds invested overnight by Treasury on behalf of OTS.

INVESTMENTS HELD TO MATURITY

Effective January 1, 1994, OTS adopted Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Investments in Certain Debt and Equity Securities." Under the statement, OTS is required to classify investment securities under three categories: (1) trading, (2) available for sale, and (3) held to maturity. All of the agency's investments consist of Treasury obligations. OTS has the intent and ability to hold these

**UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION**

NOTES TO FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

investments to maturity. Therefore, all investments are classified as held to maturity and are stated at amortized cost. Certain Treasury securities are purchased at a discount or premium. Premiums and discounts are amortized over the term of the security using the interest method.

POST-RETIREMENT BENEFITS

OTS provides certain health and life benefits for all retired employees that meet eligibility requirements. Effective January 1, 1993, OTS adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," to account for its share of the costs of those benefits. Under this statement, OTS's share of the estimated costs that will be paid after retirement is being accrued by charges to expense over the employees' active service periods to the dates that they are fully eligible for benefits, except that OTS has elected to amortize the transition amount (unfunded cost at January 1, 1993) over 20 years beginning in 1993 in accordance with the option available in the statement. Prior to 1993, OTS expensed its share of the costs as the retirees incurred claims and as OTS paid premiums. Pursuant to an agreement with the Office of Personnel Management (OPM) in 1994, OTS agreed to pay a one-time fee to OPM in consideration of OPM assuming the health care portion of the post-retirement plan liability.

ANNUAL, SICK, AND OTHER LEAVE

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued annual leave account reflects current pay rates. Sick leave and other types of nonvested leave are charged to operating costs as taken.

PROPERTY AND EQUIPMENT

Fixed assets acquired by OTS are capitalized at cost. Individual fixed assets with costs in excess of \$50,000 and bulk purchases with costs in excess of \$500,000 are capitalized. Aggregate purchases of multiple items directly related to a specific project (for example, leasehold improvements) are capitalized when the total cost exceeds a minimum threshold of \$500,000, and the annual amortization amount exceeds \$50,000. The building owned by OTS is being depreciated over 50 years. The agency's capitalized furniture, fixtures and equipment are depreciated over 3 to 5 years. Depreciation is computed on a straight-line basis.

INCOME TAXES

As an agency of the Department of the Treasury, OTS is exempt from all federal and state taxes based on income. OTS is also exempt from state and local property and real estate taxes.

3. CASH AND CASH EQUIVALENTS

The following table summarizes the balances of cash and cash equivalents (in thousands):

	<u>September 30</u>	
	<u>2010</u>	<u>2009</u>
Cash	\$ 1,000	\$ 965
Overnight investment with Treasury	<u>137,443</u>	<u>126,702</u>
Total cash and cash equivalents	<u>\$ 138,443</u>	<u>\$ 127,667</u>

**UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION**

NOTES TO FINANCIAL STATEMENTS

3. CASH AND CASH EQUIVALENTS (continued)

Interest earned on cash and overnight investments totaled \$0.1 million for 2010 and 2009.

4. INVESTMENTS HELD TO MATURITY

Investment securities held at September 30, 2010 and 2009 are marketable Treasury securities maturing through January 2014. The amortized cost and market value of these securities are summarized as follows (in thousands):

	<u>September 30</u>	
	<u>2010</u>	<u>2009</u>
Face value	\$ 210,000	\$ 225,000
Unamortized premium, net of unamortized discount	<u>3,861</u>	<u>7,109</u>
Book value of investments held to maturity	<u>\$ 213,861</u>	<u>\$ 232,109</u>
Market value	<u>\$ 220,847</u>	<u>\$ 235,738</u>

Effective interest yields range from .60 percent to 3.57 percent. Interest earned on these investments totaled \$4.6 million and \$5.4 million for 2010 and 2009, respectively.

5. PROPERTY AND EQUIPMENT

The following table summarizes the fixed asset balances (in thousands):

	<u>September 30</u>	
	<u>2010</u>	<u>2009</u>
Land	\$ 7,101	\$ 7,101
Building	49,188	49,188
Furniture, fixtures, and equipment	4,256	3,926
Leasehold Improvements	<u>1,852</u>	<u>1,852</u>
Total cost	<u>\$ 62,397</u>	<u>\$ 62,067</u>
Accumulated depreciation, building	\$ (30,758)	\$ (29,705)
Accumulated depreciation, furniture, fixtures, and equipment	(2,287)	(3,002)
Accumulated amortization, leasehold improvements	<u>(1,059)</u>	<u>(920)</u>
Total accumulated depreciation and amortization	<u>\$ (34,104)</u>	<u>\$ (33,627)</u>
Property and equipment, net	<u>\$ 28,293</u>	<u>\$ 28,440</u>

6. WORKERS' COMPENSATION LIABILITY

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Benefit claims incurred for active and former employees of OTS and its predecessor, the Federal Home Loan Bank Board,

**UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION**

NOTES TO FINANCIAL STATEMENTS

6. WORKERS' COMPENSATION LIABILITY (continued)

are administered by the U.S. Department of Labor (DOL) and are ultimately paid by OTS. Actuarial estimates of future workers' compensation estimates are generated by DOL. The estimated actuarial liability for FECA benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The annual benefit payments have been discounted to present value using OMB's economic assumptions for 10-year Treasury notes and bonds. Based on information provided by DOL and the Department of the Treasury, OTS estimates that its FECA liability was \$3.2 million and \$3.7 million as of September 30, 2010 and September 30, 2009, respectively. Actual FECA expenses currently payable are included in other accrued liabilities and totaled \$894 thousand and \$904 thousand as of September 30, 2010 and September 30, 2009, respectively. Changes in the actuarial liability and payments related to FECA are reflected as reductions or increases in benefits expense in the appropriate year.

7. DEFERRED COMPENSATION LIABILITY

Under provisions of FIRREA, OTS assumed the Deferred Compensation Plans of the employees transferred from the Federal Home Loan Banks of Dallas and San Francisco. These plans allowed employees to defer a portion of their income and provided for employer matching contributions. OTS froze these plans and discontinued all plan deferrals or employer matches effective January 1, 1991. Under the assumed plans, benefits were intended to be provided by cash value life insurance policies issued by Mutual Benefit Life; Mutual Benefit Life went into rehabilitation on July 16, 1991. OTS surrendered all but two of these policies in 1994 and retained the full cash values on deposit with Mutual Benefit Life. Under the rehabilitation plan, withdrawal of cash values prior to December 31, 1999, was restricted and subject to substantial withdrawal penalties. In 2003, OTS elected to receive the cash values for surrendered policies and invest the funds with Treasury. The last remaining policy was surrendered in May 2010, previously included in other assets. The balance in the accompanying Statements of Financial Position is \$0 in 2010 and \$18 thousand in 2009. Plan payments are funded by OTS.

8. POST-RETIREMENT BENEFIT LIABILITY

OTS sponsors a life insurance plan (the Plan) for all employees that meet eligibility requirements. The agency funds benefit costs principally on a pay-as-you-go basis, with retiree contributions that are adjusted annually based on certain factors, some of which are discretionary. The Plan is unfunded, with participants paying a portion of the costs. As stated in the Significant Accounting Policies, OTS changed its accounting policy with respect to the Plan as of January 1, 1993. OTS elected to defer recognition of the Plan's transition obligation and amortize such obligation over 20 years on a straight-line basis.

A Memorandum of Understanding (MOU) was signed in December 1994 between OPM and OTS. The purpose of the MOU was to implement legislation permitting annuitants who retired from OTS prior to January 1995, and who were enrolled in the OTS health plan, to enroll in the Federal Employees Health Benefits (FEHB) plan for coverage effective on or after January 8, 1995.

OTS agreed to pay a one-time fee to OPM of approximately \$11.0 million in consideration of OPM assuming the health portion of the post-retirement plan liability. In accordance with SFAS No. 106, the agreement with OPM constitutes a settlement and, accordingly, OTS recognized a gain on the settlement of approximately \$16.7 million in 1994. Such gain includes the health portion of the transition obligation that OTS elected to initially recognize over 20 years in 1993. The post-retirement liability of \$20.4 million in the Statements of Financial Position at September 30, 2010 and \$19.2 million at September 30, 2009 represents OTS's recognized portion of the remaining liability for participants' future life insurance benefits.

**UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION**

NOTES TO FINANCIAL STATEMENTS

8. POST-RETIREMENT BENEFIT LIABILITY (continued)

Net periodic post-retirement benefit cost for life insurance provisions under the Plan included the following components in 2010 and 2009 (in thousands):

	For the Years Ended	
	<u>September 30</u>	
	<u>2010</u>	<u>2009</u>
Service cost - current year	\$ 569	\$ 573
Interest on accumulated post-retirement benefit obligation	1,086	1,030
Amortization of transition obligation	<u>253</u>	<u>253</u>
Net post-retirement benefit expense	<u>\$ 1,908</u>	<u>\$ 1,856</u>

The following table sets forth the Plan's funded status reconciled with the liability recognized in the Statements of Financial Position (in thousands):

	<u>September 30</u>	
	<u>2010</u>	<u>2009</u>
Accumulated post-retirement benefit obligation:		
Retirees	\$ 13,627	\$ 11,187
Other fully eligible participants	207	107
Other active participants	<u>10,070</u>	<u>8,801</u>
Accumulated post-retirement benefit obligation	23,904	20,095
Unrecognized transition obligation	(568)	(821)
Unrecognized net (loss)	<u>(2,855)</u>	<u>(27)</u>
Total post-retirement benefit liability	<u>\$ 20,481</u>	<u>\$ 19,247</u>

The weighted average discount rates used in estimating the accumulated post-retirement benefit obligations were 5.0 percent at September 30, 2010 and 5.5 percent at September 30, 2009.

9. OTHER RETIREMENT PLAN LIABILITIES

OTS employees participate in three retirement systems. Two are administered by OPM. For funding purposes, these two plans function as defined contribution plans; however, the retirement benefits accrue in a manner consistent with a defined benefit plan. The third is a private defined benefit plan, the Financial Institutions Retirement Fund (FIRF), administered by Pentegra Retirement Services (Pentegra).

The Civil Service Retirement System (CSRS) is two-tiered. For employees hired prior to January 1, 1984, OTS withholds 7 percent of regular earnings. OTS also contributed 7 percent of regular earnings during 2010 and 2009 for each employee in this tier. The sum is transferred to the Civil Service Retirement Fund, from which this employee group will receive retirement benefits. Employees do not contribute to, or receive benefits from, the Social Security System.

For employees with more than 5 years of (not necessarily continuous) service, hired on or after January 1, 1984, who are covered under CSRS/Offset, OTS withholds 0.8 percent of regular earnings, in addition to Social Security withholding. OTS also contributed 7 percent of regular earnings in 2010 and 2009, for each employee

**UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION**

NOTES TO FINANCIAL STATEMENTS

9. OTHER RETIREMENT PLAN LIABILITIES (continued)

in this tier. When regular earnings exceed the FICA maximum wages, employees covered under this tier of CSRS are required to have 7 percent of their earnings withheld. This employee group will receive retirement benefits from both CSRS and the Social Security System.

Beginning in January 1987, all employees hired since January 1, 1984, either as new employees or having less than 5 years of accumulated service (with a break in service over one year) are included in the Federal Employee Retirement System (FERS). For these employees, OTS withheld 0.8 percent of regular earnings in 2010 and 2009. The agency contributed 11.2 percent of regular earnings in both 2010 and 2009 for FERS employees. This group of employees will receive benefits from FERS as well as the Social Security System, to which they concurrently contribute.

Pursuant to FIRREA, the Office of Regulatory Activities (ORA) and its twelve examination districts became part of OTS. OTS assumed the cost of their retirement system, which is part of FIRF. OTS contributes a percentage of total FIRF salary. The percentage varies from year to year. Employees do not contribute to FIRF but do contribute to the Social Security System. Changes in percentages are based on the number and average age of active FIRF employees, the number of people who have retired, the benefits paid out, and adjustments to the actuarial gain or loss.

The Minimum Required Contribution (MRC) for each FIRF plan year consists of two components: (1) normal cost and (2) amortization of the retirement plan's shortfall, if any. For the plan year beginning July 1, 2010, OTS's estimated shortfall was \$74.7 million. The plan year shortfall is amortized over approximately 7 years in conformance with the Pension Protection Act of 2006 and IRS Rules.

Prior to OTS's fiscal year closing, OTS receives notice of the plan year MRC from the FIRF plan administrator Pentegra Retirement Services. OTS recognizes one-fourth of the MRC as current fiscal year expense and the remainder in the next fiscal year. The MRC for the plan year beginning July 1, 2009 was \$25.3 million, which was reduced by paying it in full early in the plan year. Accordingly, OTS recognized \$6.3 million in expenses for the fourth quarter of fiscal year 2009. The remainder, \$19 million is expensed in fiscal year 2010.

The plan year beginning July 1, 2008 was the first plan year under the rules of the Pension Protection Act of 2006 (PPA). Under this law, the MRC consists of the Target Normal Cost and a shortfall amortization, if any. The shortfall amortization is calculated by using the OTS funding target. The key components are the net present value of future liabilities of \$481.3 million, and plan assets valued at \$406.5 million. The resulting funding percentage provided by Pentegra Retirement Services of 84.47% is below the 96% minimum required funding target by the PPA for the plan year. Therefore, OTS's MRC for the plan year beginning July 1, 2009 equals the Target Normal Cost plus the minimum contribution amortization shortfall totaling \$32.9 million. Accordingly, OTS recognizes \$8.4 million in expenses for the fourth quarter of fiscal year 2010. The remainder, \$24.5 million will be expensed in fiscal year 2011.

OTS funds a portion of CSRS and FERS pension benefits and collects the appropriate payroll withholdings. OTS does not account for the assets of either government retirement plan, nor does it have actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by OPM for both government retirement systems and are not allocated to the individual agencies.

OTS also offers its own Defined Contribution (DC) plan. Prior to May 10, 2009, OTS employees participated in the Financial Institutions Thrift Plan (FITP), a 401(k) plan administered by Pentegra Retirement Services. Effective May 10, 2009, OTS switched providers and began offering its own plan, the OTS 401(k) Plan administered by Charles Schwab. CSRS and FERS employees participate in both the TSP and the OTS 401(k)

**UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION**

NOTES TO FINANCIAL STATEMENTS

9. OTHER RETIREMENT PLAN LIABILITIES (continued)

Plan and FIRF employees participate in the OTS 401(k) Plan only. Between the TSP and the OTS 401(k) Plan, OTS matches employee contributions as follows: up to 4 percent for CSRS participants, up to 9 percent for FERS participants, and up to 7 percent for FIRF participants.

The liabilities for all OTS plans, included in other retirement plan liabilities in the accompanying Statements of Financial Position, are as follows (in thousands):

	<u>September 30</u>	
	<u>2010</u>	<u>2009</u>
FIRF Total	\$ <u>8,380</u>	\$ <u>6,343</u>

The expenses for all OTS plans, included in benefits expense in the accompanying Statements of Operations and Changes in Net Position, are as follows (in thousands):

	For the Years Ended	
	<u>September 30</u>	
	<u>2010</u>	<u>2009</u>
CSRS	\$ 869	\$ 901
FERS	6,010	5,888
FIRF	27,401	16,363
FITP	5,934	5,839
TSP	<u>2,508</u>	<u>2,326</u>
Total	\$ <u>42,722</u>	\$ <u>31,317</u>

10. OTHER ACCRUED LIABILITIES

The following table summarizes the other accrued liabilities (in thousands):

	<u>September 30</u>	
	<u>2010</u>	<u>2009</u>
Post-employment benefits payable	\$ 894	\$ 904
Goods and services	<u>2,402</u>	<u>3,004</u>
Total other accrued liabilities	\$ <u>3,296</u>	\$ <u>3,908</u>

11. NET POSITION

The land and building owned by the FHLBB were transferred to OTS under FIRREA. OTS also assumed all furniture, fixtures and equipment previously owned by FHLBB. These assets were recorded at their existing book values established in the FHLBB's accounting records. Their value is reported as assumed capital in the Net Position section of the comparative Statements of Financial Position. Assumed capital totaled \$41.0 million as of September 30, 2010 and 2009.

**UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION**

NOTES TO FINANCIAL STATEMENTS

11. NET POSITION (continued)

Beginning in fiscal year 2005, OTS set aside a portion of its retained earnings as contingency and special reserves. The contingency reserve supports OTS's ability to accomplish its mission in the case of significant revenue loss. Unforeseeable events, such as a major change in the thrift industry, are beyond the control of OTS. The special reserve supplements revenue from assessments and other sources that are made available to fund OTS's annual budget. The special reserve reduces the effect on operations of unforecasted revenue shortfalls or unbudgeted and unanticipated requirements or opportunities. Undelivered orders represent the amount of goods and services ordered that have not been actually or constructively received and for which amounts have not been prepaid or advanced.

The following table summarizes the components of the retained earnings (in thousands):

	<u>September 30</u>	
	<u>2010</u>	<u>2009</u>
Contingency reserve	\$ 160,898	\$ 174,719
Special reserve	60,000	50,000
Undelivered orders	<u>10,637</u>	<u>9,051</u>
Total retained earnings	<u>\$ 231,535</u>	<u>\$ 233,770</u>

12. RENTAL INCOME

OTS leases a portion of its building as office and retail space under noncancellable operating leases expiring at various dates through 2021. Some of the leases provide renewal options. The leases provide for annual base rent and additional rents for building operating expenses. Some leases provide for fixed future increases in rents over the term of the lease.

The future minimum rentals to be received under noncancellable operating lease arrangements, not including renewals, are as follows (in thousands):

<u>Years ending</u> <u>September 30</u>	<u>Total</u>
2011	\$ 5,142
2012	5,215
2013	5,337
2014	919
2015	293
Thereafter	<u>1,392</u>
	<u>\$ 18,298</u>

Rental income totaled \$5.7 million for 2010 and 2009.

**UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION**

NOTES TO FINANCIAL STATEMENTS

13. LEASE COMMITMENTS

OTS conducts most of its regional operations in leased facilities under noncancellable operating leases expiring at various dates through 2020. Many of the leases contain a provision to renew at the end of the initial term for an additional one to ten years. The rental payments are based on a minimum rental plus a proportional share of building operating expenses and taxes.

Some of the operating leases provide for rental escalations or stated annual rental increases in the amount of base rent over the lives of the leases. The accompanying comparative Statements of Operations and Changes in Net Position reflect rent expense on a straight-line basis over the lives of the leases.

The minimum rental commitments under noncancellable operating leases are as follows (in thousands):

Years ending	
<u>September 30</u>	<u>Total</u>
2011	\$ 3,755
2012	2,745
2013	2,342
2014	1,919
2015	1,864
Thereafter	<u>5,930</u>
Total	<u>\$ 18,555</u>

Rent expense under noncancellable operating leases totaled \$4.4 million and \$4.1 million for 2010 and 2009, respectively.

14. COMMITMENTS AND CONTINGENCIES

There are approximately six lawsuits pending against the United States in the Court of Federal Claims and the Court of Appeals for the Federal Circuit, in connection with Congress's elimination of the capital treatment of supervisory goodwill or other intangible assets of certain thrift institutions. These cases arise from the enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. The U.S. Department of Justice (Department of Justice) is defending these cases on behalf of the United States, and OTS is supporting the Department of Justice in its defense efforts. Under 28 U.S.C. § 2517, any judgment issued by the Court of Federal Claims must be paid from appropriated funds. Therefore, OTS funds, which are non-appropriated, cannot be used to pay judgments in these cases.

In addition, there is a preliminary matter that has not yet reached the point of litigation. The claimant has submitted an administrative claim for \$5 million in damages, but OTS has not yet issued a decision on the claim. Given the preliminary stage of this matter, OTS is not presently able to estimate either the likelihood of success or any potential loss that may ultimately result if litigation ensues.

15. SUBSEQUENT EVENTS

OTS has evaluated subsequent events from the statements of financial position date through October 29, 2010, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.



LANI EKO & COMPANY, CPAs, PLLC
110 S. Union Street, Suite 301
Alexandria, VA 22314

Phone: (703) 647-7444
Fax: (866) 665-7269
www.laniekocpas.com

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS**

To the Inspector General
U.S. Department of the Treasury

We have audited the financial statements of the U.S. Department of the Treasury, Office of Thrift Supervision (OTS) as of and for the years ended September 30, 2010 and 2009, and have issued our report thereon dated October 29, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the OTS' internal control over financial reporting as a basis for designing our auditing procedures, obtained an understanding of the design effectiveness of internal controls, determined whether the internal controls have been placed in operation, assessed control risk, and performed tests of the OTS's internal controls 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 OTS' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OTS' internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable

possibility that a material misstatement of the OTS's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

Compliance and Other Matters

The management of OTS is responsible for complying with laws and regulations applicable to the OTS. As part of obtaining reasonable assurance about whether the OTS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of applicable laws and 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* or Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

We noted a matter that we reported to management of OTS in a separate letter dated October 29, 2010

This report is intended solely for the information and use of the Inspector General of the U.S. Department of the Treasury, the management of the OTS, the OMB, the Government Accountability Office and Congress and is not intended to be and should not be used by anyone other than these specified parties.

Lani Eko & Company, CPAs, PLLC

October 29, 2010

Alexandria, VA