Board of Governors of The Federal Reserve System

Financial Statements as of and for the
Years Ended December 31, 2010 and 2009,
and Independent Auditors' Report

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551-0001

February 28, 2011

MANAGEMENT'S ASSERTION

To the Committee on Board Affairs:

The management of the Board of Governors of the Federal Reserve System ("the Board") is responsible for the preparation and fair presentation of the balance sheet as of December 31, 2010, and for the related statement of revenues and expenses and changes in cumulative results of operations, and cash flows for the year then ended (the "Financial Statements"). The Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include some amounts which are based on management judgments and estimates. To our knowledge, the Financial Statements are, in all material respects, fairly presented in conformity with generally accepted accounting principles and include all disclosures necessary for such presentation.

Board management is also responsible for establishing and maintaining effective internal control over financial reporting as it relates to the Financial Statements. Such internal control is designed to provide reasonable assurance to management and to the Committee on Board Affairs regarding the preparation of the Financial Statements in accordance with accounting principles generally accepted in the United States of America. Internal control includes self-monitoring mechanisms, including, but not limited to, divisions of responsibility and a code of conduct. Once identified, any material deficiencies in internal control are reported to management and appropriate corrective measures are implemented.

Even effective internal control—no matter how well designed—has inherent limitations, including the possibility of human error. Internal control, therefore, can provide only reasonable assurance with respect to the preparation of reliable financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that specific controls may become inadequate because of changes in conditions or that the degree of compliance with policies or procedures may deteriorate.

Board management assessed its internal control over financial reporting reflected in the Financial Statements based upon the criteria established in the *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, we believe that the Board has maintained effective internal control over financial reporting as it relates to its Financial Statements.

by
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Administrative Governor

by
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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of the Federal Reserve System:

We have audited the accompanying balance sheets of the Board of Governors of the Federal Reserve System (the "Board") as of December 31, 2010 and 2009, and the related statements of revenues and expenses and changes in cumulative results of operations, and cash flows for the years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States), auditing standards of the Public Company Accounting Oversight Board (United States), 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. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances. 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, such financial statements present fairly, in all material respects, the financial position of the Board of Governors of the Federal Reserve System as of December 31, 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.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Board's internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2011 expressed an unqualified opinion on the Board's internal control over financial reporting.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2011, on our tests of the Board's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion 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 audit.

Deloitte + Touche LLP

February 28, 2011

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Governors of the Federal Reserve System:

We have audited the internal control over financial reporting of the Board of Governors of the Federal Reserve System (the “Board”) as of December 31, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Board's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Assertion report. Our responsibility is to express an opinion on the Board's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

The Board’s internal control over financial reporting is a process designed by, or under the supervision of, the Board’s principal executive and principal financial officers, or persons performing similar functions, and effected by the Board's Committee on Board Affairs, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Board’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Board; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Board are being made only in accordance with authorizations of management and governors of the Board; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Board's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Board maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), generally accepted auditing standards as established by the Auditing Standards Board (United States), and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying balance sheet, statements of revenues and expenses and changes in cumulative results of operations, and cash flows as of and for the year ended December 31, 2010 of the Board and our report dated February 28, 2011 expressed an unqualified opinion on those financial statements.

Deloitte + Touche LLP

February 28, 2011

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BALANCE SHEETS
AS OF DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash	$ 55,142,632	$ 54,792,831
Accounts receivable	3,234,076	2,948,984
Prepaid expenses and other assets	2,657,914	3,693,970
Total current assets	61,034,622	61,435,785
NONCURRENT ASSETS:		
Property, equipment, and software — net	156,767,186	159,267,605
Other assets	576,659	1,837,995
Total noncurrent assets	157,343,845	161,105,600
TOTAL	$218,378,467	$ 222,541,385
LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 15,403,521	$ 20,765,464
Accrued payroll and related taxes	21,894,036	10,940,984
Accrued annual leave	26,337,190	24,821,044
Capital lease payable	544,878	533,110
Unearned revenues and other liabilities	556,846	2,982,629
Total current liabilities	64,736,471	60,043,231
LONG-TERM LIABILITIES:		
Capital lease payable	237,479	782,357
Accumulated retirement benefit obligation	21,979,219	13,021,387
Accumulated postretirement benefit obligation	10,219,672	9,304,324
Accumulated postemployment benefit obligation	13,813,254	14,463,965
Other long-term liabilities	3,545,936	415,324
Total long-term liabilities	49,795,560	37,987,357
Total liabilities	114,532,031	98,030,588
CUMULATIVE RESULTS OF OPERATIONS:		
Fund balance	118,473,958	133,677,902
Accumulated other comprehensive income (loss)	(14,627,522)	(9,167,105)
Total cumulative results of operations	103,846,436	124,510,797
TOTAL	$218,378,467	$ 222,541,385

See notes to financial statements.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN CUMULATIVE RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
BOARD OPERATING REVENUES:		
Assessments levied on Federal Reserve Banks for Board operating expenses and capital expenditures	$ 422,200,000	$ 386,399,900
Other revenues	8,693,489	9,413,565
Total operating revenues	430,893,489	395,813,465
BOARD OPERATING EXPENSES:		
Salaries	268,168,023	243,664,276
Retirement and insurance	56,788,740	50,458,964
Contractual services and professional fees	48,698,913	40,065,160
Depreciation, amortization, and net gains on disposals	15,865,704	13,885,165
Utilities	8,628,394	8,676,782
Travel	10,847,795	11,346,880
Software	8,057,580	8,699,031
Postage and supplies	7,100,302	8,157,780
Repairs and maintenance	3,384,994	5,115,155
Printing and binding	2,240,489	2,597,982
Other expenses	16,316,499	13,553,896
Total operating expenses	446,097,433	406,221,071
RESULTS OF OPERATIONS	(15,203,944)	(10,407,606)
CURRENCY COSTS:		
Assessments levied on Federal Reserve Banks for currency costs	622,858,648	502,144,883
Expenses for costs related to currency	622,858,648	502,144,883
Currency assessments over (under) expenses	-	-
BUREAU OF CONSUMER FINANCIAL PROTECTION (BUREAU)		
Assessments levied on the Reserve Banks for the Bureau	32,770,000	
Transfer to the Bureau	32,770,000	-
Bureau assessments over (under) transfers	-	-
OFFICE OF FINANCIAL RESEARCH (OFFICE) :		
Assessments levied on the Reserve Banks for the Office	9,515,944	
Transfers to the Office	9,515,944	-
Office assessments over (under) transfers	-	-
TOTAL RESULTS OF OPERATIONS	(15,203,944)	(10,407,606)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN CUMULATIVE RESULTS OF OPERATIONS (CONTINUED) FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

CUMULATIVE RESULTS OF OPERATIONS — Beginning of year	124,510,797	134,811,346
OTHER COMPREHENSIVE INCOME:		
Prior service credit (cost) arising during the year	-	(315,842)
Amortization of prior service (credit) cost	518,195	541,162
Amortization of net actuarial (gain) loss	576,736	353,551
Net actuarial gain (loss) arising during the year	(6,555,348)	(471,814)
Total other comprehensive income (loss)	(5,460,417)	107,057
CUMULATIVE RESULTS OF OPERATIONS — End of year	$ 103,846,436	$ 124,510,797

See notes to financial statements.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Results of operations	$ (15,203,944)	$ (10,407,606)
Adjustments to reconcile results of operations to net cash provided by (used in) operating activities:		
Depreciation	15,877,105	13,869,221
Net loss (gain) on disposal of property and equipment	(11,401)	15,944
Other additional non-cash adjustments to results of operations	658,587	-
(Increase) decrease in assets:		
Accounts receivable, prepaid expenses and other assets	730,143	1,499,641
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(822,981)	1,668,788
Accrued payroll and related taxes	10,953,052	1,627,747
Accrued annual leave	1,516,146	2,586,938
Unearned revenues and other liabilities	(2,425,783)	1,139,571
Net retirement benefit obligation	3,911,348	2,592,406
Net postretirement benefit obligation	501,415	445,903
Net postemployment benefit obligation	(650,711)	563,965
Other long-term liabilities	3,130,612	(233,210)
Net cash provided by (used in) operating activities	18,163,588	15,369,308
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposals	-	866
Capital expenditures	(17,296,078)	(18,346,427)
Net cash provided by (used in) investing activities	(17,296,078)	(18,345,561)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital lease payments	(517,709)	(486,906)
Net cash provided by (used in) financing activities	(517,709)	(486,906)
NET INCREASE (DECREASE) IN CASH	349,801	(3,463,159)
CASH BALANCE — Beginning of year	54,792,831	58,255,990
CASH BALANCE — End of year	$ 55,142,632	$ 54,792,831

See notes to financial statements.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

1. STRUCTURE

The Federal Reserve System (the System) was established by Congress in 1913 and consists of the Board of Governors (the Board), the Federal Open Market Committee, the twelve regional Federal Reserve Banks, the Federal Advisory Council, and the private commercial banks that are members of the System. The Board, unlike the Reserve Banks, was established as a federal government agency and is supported by Washington, D.C. based staff numbering approximately 2,100, as it carries out its responsibilities in conjunction with other components of the Federal Reserve System.

The Board is required by the Federal Reserve Act (the Act) to report its operations to the Speaker of the House of Representatives. The Act also requires the Board, each year, to order a financial audit of each Federal Reserve Bank and to publish each week a statement of the financial condition of each such Reserve Bank and a consolidated statement for all of the Reserve Banks. Accordingly, the Board believes that the best financial disclosure consistent with law is achieved by issuing separate financial statements for the Board and for the Reserve Banks. Therefore, the accompanying financial statements include only the results of operations and activities of the Board. Combined financial statements for the Federal Reserve Banks are included in the Board's annual report to the Speaker of the House of Representatives.

2. OPERATIONS AND SERVICES

The Board's responsibilities require thorough analysis of domestic and international financial and economic developments. The Board carries out those responsibilities in conjunction with other components of the Federal Reserve System. The Board also supervises and regulates the operations of the Federal Reserve Banks, exercises broad responsibility in the nation's payments system, and currently administers most of the nation's laws regarding consumer credit protection. Policy regarding open market operations is established by the Federal Open Market Committee. However, the Board has sole authority over changes in reserve requirements, and it must approve any change in the discount rate initiated by a Federal Reserve Bank. The Board also plays a major role in the supervision and regulation of the U.S. banking system. It has supervisory responsibilities for state-chartered banks that are members of the Federal Reserve System, bank holding companies, foreign activities of member banks, and U.S. activities of foreign banks.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), which was signed into law and became effective on July 21, 2010, changed the scope of some services performed by the System. Among other things, the Dodd-Frank Act establishes a Bureau of Consumer Financial Protection (Bureau) as an independent bureau within the System that will have rule-writing authority with respect to most federal financial consumer protection statutes and supervisory authority with respect to these statutes over some institutions previously supervised by the Board. The Dodd-Frank Act will also vest the Board with all supervisory and rule-writing authority for savings and loan holding companies. In addition, the Dodd-Frank Act creates a Financial Stability Oversight Council (FSOC) of which the Chairman of the Board is a member. Some of the FSOC's responsibilities include identifying systemically important nonbank financial companies to be supervised by the Board. The Dodd-Frank Act also establishes the Office of Financial Research (Office) within the U.S. Department of Treasury to provide support to the FSOC and the member agencies.

Section 1017 of the Dodd-Frank Act provides that the financial statements of the Bureau are not to be consolidated with those of the Board or the System. The Board has also determined that neither the FSOC nor the Office should be consolidated in the Board's financial statements. Accordingly, the Board's financial statements do not include financial data of the Bureau, the Office, or the FSOC other than the funding that the Board is required by the Dodd-Frank Act to provide. (See Notes 13 and 14)

3. SIGNIFICANT ACCOUNTING POLICIES

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

Revenues — The Federal Reserve Act authorizes the Board to levy an assessment on the Reserve Banks to fund its operations. The Board levies the assessment based on each Reserve Bank's capital and surplus balances as of December 31 of the prior year.

Assessments to Fund the Bureau and the Office — The Board assesses the Federal Reserve Banks for the funds transferred to the Bureau and the Office based on each Federal Reserve Bank's capital and surplus balances. These assessments and transfers are reported separately from the Board's operating activities in the Board's Statements of Revenues and Expenses and Changes in Cumulative Results of Operations.

Currency Costs — The Federal Reserve Board issues the nation's currency (in the form of Federal Reserve notes), and the Federal Reserve Banks distribute currency and coin through depository institutions. The Board incurs expenses and assesses the Reserve Banks for the expenses related to producing, issuing, and retiring Federal Reserve notes. The assessment is allocated based on each Reserve Bank's share of the number of notes comprising the Federal Reserve Bank System's net liability for Federal Reserve notes on December 31 of the prior year. These expenses and assessments are reported separately from the Board's operating activities in the Board's Statements of Revenues and Expenses and Changes in Cumulative Results of Operations.

Allowance for Doubtful Accounts — Accounts receivable are shown net of the allowance for doubtful accounts. Accounts receivable considered uncollectible are charged against the allowance account in the year they are deemed uncollectible. The allowance for doubtful accounts is adjusted monthly, based upon a review of outstanding receivables.

Property, Equipment, and Software — The Board's property, buildings, equipment, and software are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets, which range from three to ten years for furniture and equipment, ten to fifty years for building equipment and structures, and two to ten years for software. Upon the sale or other disposition of a depreciable asset, the cost and related accumulated depreciation or amortization are removed and any gain or loss is recognized.

The Board's internally developed software projects are each recorded at cost and capitalized and amortized over the project's useful life as required by the Internal Use Software Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Art Collections — The Board has collections of works of art, historical treasures, and similar assets. These collections are maintained and held for public exhibition in furtherance of public service. Proceeds from any sales of collections are used to acquire other items for collections. As permitted by the Revenue Recognition Topic of the ASC, the cost of collections purchased by the Board is charged to expense in the year purchased and donated collection items are not recorded. The value of the Board's collections has not been determined.

Deferred Rent — The leases contain scheduled rent increases over the term of the lease. As required by the Leases Topic of the ASC, 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.

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 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.

4. PROPERTY, EQUIPMENT, AND SOFTWARE

The following is a summary of the components of the Board's property, equipment, and software, at cost, net of accumulated depreciation and amortization as of December 31, 2010 and 2009:

	2010	**2009**
Land	$ 18,640,314	$ 18,640,314
Buildings and improvements	163,868,033	155,403,350
Furniture and equipment	68,789,408	66,411,669
Software in use	24,244,811	16,196,241
Software in process	1,985,544	6,276,842
Construction in process	4,810,307	8,100,559
	282,338,417	271,028,975
Less accumulated depreciation and amortization	(125,571,231)	(111,761,370)
Property, equipment, and software — net	$ 156,767,186	$159,267,605

Construction in process include costs incurred in the current or prior years for long-term projects and building enhancements.

5. LEASES

Capital Leases —The Board entered into capital leases in 2008 and 2009. Furniture and equipment includes $2,086,000 under capital leases in both 2010 and 2009. Accumulated depreciation includes $1,319,000 and $789,000 under capital leases as of 2010 and 2009, respectively.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of December 31, 2010, are as follows:

Years Ending December 31,	**Amount**
2011	$ 978,315
2012	421,925
Total minimum lease payments	1,400,240
Less amount representing maintenance	(604,906)
Net minimum lease payments	795,334
Less amount representing interest	(12,977)
Present value of net minimum lease payments	782,357
Less current maturities of capital lease payments	(544,878)
Long-term capital lease obligations	$ 237,479

Operating Leases — The Board has entered into several operating leases to secure office, training and warehouse space. Minimum annual payments under the operating leases having an initial or remaining non-cancelable lease term in excess of one year at December 31, 2010, are as follows:

Years Ending December 31,	
2011	$ 6,251,496
2012	6,414,807
2013	6,608,976
2014	6,788,468
After 2014	35,626,043
	$61,689,790

Rental expenses under the operating leases were $6,882,000 and $3,947,000 for the years ended December 31, 2010 and 2009, respectively. The Board entered into a new operating lease in January 2011. The estimated future minimum lease payments associated with the new lease total $78,702,000 over a ten year period.

The Board leases and subleases space, primarily to other governmental agencies. The revenues collected from these leases are $1,937,000 and $2,504,000 in 2010 and 2009, respectively.

Deferred Rent — The change in deferred rent was $528,000 and $1,666,000 for the years ended December 31, 2010 and 2009, respectively.

6. ACCUMULATED RETIREMENT BENEFITS

Substantially all of the Board's employees participate in the Retirement Plan for Employees of the Federal Reserve System (the System Plan). The System Plan provides retirement benefits to employees of the Board, the Federal Reserve Banks, and the Office of Employee Benefits of the Federal Reserve System (OEB). In addition, under the Dodd-Frank Act, employees of the Bureau can elect to participate in the System Plan; however, there were no Bureau participants in the System Plan as of December 31, 2010. The Federal Reserve Bank of New York (FRB NY), on behalf of the System, recognizes the net assets and costs associated with the System Plan in its financial statements. Costs associated with the System Plan are not redistributed to other participating employers.

Employees of the Board who became employed prior to 1984 are covered by a contributory defined benefits program under the System Plan. Employees of the Board who became employed after 1983 are covered by a non-contributory defined benefits program under the System Plan. Contributions to the System Plan are actuarially determined and funded by participating employers. In 2010, the System made $580 million in contributions to the System Plan; the contributions may be adjusted upon completion of the 2011 actuarial valuation. The Board was not assessed a contribution for 2010.

Effective January 1, 1996, Board employees covered under the System Plan are also covered under a Benefits Equalization Plan (BEP). Benefits paid under the BEP are limited to those benefits that cannot be paid from the System Plan due to limitations imposed by Sections 401(a)(17), 415(b) and 415(e) of the Internal Revenue Code of 1986. Activity for the BEP as of December 31, 2010 and 2009, is summarized in the following tables:

	2010	2009
Change in projected benefit obligation:		
Benefit obligation — beginning of year	$ 5,900,567	$ 4,591,374
Service cost	1,359,828	712,515
Interest cost	545,688	307,501
Plan participants' contributions		
Actuarial (gain) loss	4,155,013	(175,635)
Gross benefits paid	(27,661)	(27,649)
Plan amendments		492,461
Benefit obligation — end of year	$ 11,933,435	$ 5,900,567
Accumulated benefit obligation — end of year	$ 1,686,998	$ 1,245,465
Weighted-average assumptions used to determine benefit obligation as of December 31:		
Discount rate	5.50 %	6.00 %
Rate of compensation increase	5.00 %	5.00 %
Change in plan assets:		
Fair value of plan assets — beginning of year	$ -	$ -
Employer contributions	27,661	27,649
Plan participants' contributions		
Gross benefits paid	(27,661)	(27,649)
Fair value of plan assets — end of year	$ -	$ -
Funded status:		
Reconciliation of funded status — end of year:		
Fair value of plan assets	$ -	$ -
Benefit obligations	11,933,435	5,900,567
Funded status	(11,933,435)	(5,900,567)
Amount recognized — end of year	$ (11,933,435)	$ (5,900,567)
Amounts recognized in the statements of financial position consist of:		
Asset	$ -	$ -
Liability	(11,933,435)	(5,900,567)
Net amount recognized	$ (11,933,435)	$ (5,900,567)
Amounts recognized in accumulated other comprehensive income consist of:		
Net actuarial loss (gain)	$ 5,575,910	$ 1,708,854
Prior service cost (credit)	701,833	714,123
	$ 6,277,743	$ 2,422,977

Expected cash flows:		
Expected employer contributions — 2011	$ 203,387	
Expected benefit payments:*		
2011	$ 203,387	
2012	245,726	
2013	270,697	
2014	288,871	
2015	317,411	
2016–2020	2,036,841	
*Expected benefit payments to be made from System assets		
	2010	**2009**
Components of net periodic benefit cost:		
Service cost	$ 1,359,828	$ 712,515
Interest cost	545,688	307,501
Expected return on plan assets		
Amortization:		
Actuarial (gain) loss	287,957	146,780
Prior service (credit) cost	12,290	35,257
Net periodic benefit cost (credit)	$ 2,205,763	$ 1,202,053
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	6.00 %	6.00 %
Rate of compensation increase	5.00 %	5.00 %
Other changes in plan assets and benefit obligations recognized in other comprehensive income:		
Current year prior service (credit) cost	$ -	$ 492,461
Current year actuarial (gain) loss	4,155,013	(175,635)
Amortization of prior service credit (cost)	(12,290)	(35,257)
Amortization of actuarial gain (loss)	(287,957)	(146,780)
Total recognized in other comprehensive income	$ 3,854,766	$ 134,789
Total recognized in net periodic benefit cost and other comprehensive income	$ 6,060,529	$ 1,336,842

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in 2011 are shown below:

Net actuarial (gain) loss	$ 446,472
Prior service (credit) cost	1,881
Total	$ 448,353

On October 30, 2008, the Board approved a non-qualified plan for Officers of the Board. The retirement benefits covered under the Board Officer Pension Enhancement (BOPE) increases the pension benefit calculation from 1.8% above the Social Security integration level to 2.0%. Activity for the BOPE as of December 31, 2010 and 2009, is summarized in the following tables:

	2010	2009
Change in projected benefit obligation:		
Benefit obligation — beginning of year	$ 7,120,820	$ 6,275,285
Service cost	409,007	333,034
Interest cost	493,780	402,680
Plan participants' contributions		
Actuarial (gain) loss	1,935,668	286,440
Gross benefits paid	(9,638)	
Plan amendments		(176,619)
Benefit obligation — end of year	$ 9,949,637	$ 7,120,820
Accumulated benefit obligation — end of year	$ 7,063,653	$ 5,175,331
Weighted-average assumptions used to determine benefit obligation as of December 31:		
Discount rate	5.50 %	6.00 %
Rate of compensation increase	5.00 %	5.00 %
Change in plan assets:		
Fair value of plan assets — beginning of year	$ -	$ -
Employer contributions	9,638	
Plan participants' contributions		
Gross benefits paid	(9,638)	
Fair value of plan assets — end of year	$ -	$ -
Funded status:		
Reconciliation of funded status — end of year:		
Fair value of plan assets	$ -	$ -
Benefit obligations	9,949,637	7,120,820
Funded status	(9,949,637)	(7,120,820)
Amount recognized — end of year	$ (9,949,637)	$ (7,120,820)
Amounts recognized in the statements of financial position consist of:		
Asset	$ -	$ -
Liability	(9,949,637)	(7,120,820)
Net amount recognized	$ (9,949,637)	$ (7,120,820)

	2010	2009
Amounts recognized in accumulated other comprehensive income consist of:		
Net actuarial loss (gain)	$ 3,465,859	$ 1,742,746
Prior service cost (credit)	3,243,278	3,774,673
	$ 6,709,137	$ 5,517,419
Expected cash flows:		
Expected employer contributions — 2011	$ 57,224	
Expected benefit payments:**		
2011	$ 57,224	
2012	101,577	
2013	152,569	
2014	211,829	
2015	275,788	
2016–2020	2,463,754	
**Expected benefit payments to be made from System assets		
Components of net periodic benefit cost:		
Service cost	$ 409,007	$ 333,034
Interest cost	493,780	402,680
Expected return on plan assets		
Amortization:	212,555	150,893
Actuarial (gain) loss	531,395	531,395
Prior service (credit) cost		
Net periodic benefit cost (credit)	$ 1,646,737	$ 1,418,002
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	6.00 %	6.00 %
Rate of compensation increase	5.00 %	5.00 %
Other changes in plan assets and benefit obligations recognized in other comprehensive income:		
Current year prior service (credit) cost	$ -	$ (176,619)
Current year actuarial (gain) loss	1,935,668	286,440
Amortization of prior service credit (cost)	(531,395)	(531,395)
Amortization of actuarial gain (loss)	(212,555)	(150,893)
Total recognized in other comprehensive income	$ 1,191,718	$ (572,467)
Total recognized in net periodic benefit cost and other comprehensive income	$ 2,838,455	$ 845,535

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in 2011 are shown below:

Net actuarial (gain) loss	$ 287,715
Prior service (credit) cost	531,395
Total	$ 819,110

The total accumulated retirement benefit obligation includes a liability for a supplemental retirement agreement and a benefits equalization plan under the Federal Reserve System's Thrift Plan. The total obligation as of December 31, 2010 and 2009 is summarized in the following table:

	2010	**2009**
Accumulated retirement benefit obligation:		
Benefit obligation — BEP	$11,933,435	$ 5,900,567
Benefit obligation — BOPE	9,949,637	7,120,820
Additional benefit obligation	96,147	-
Total accumulated retirement benefit obligation	$21,979,219	$13,021,387

A relatively small number of Board employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). These defined benefit plans are administered by the U.S. Office of Personnel Management, which determines the required employer contribution levels. The Board's contributions to these plans totaled $452,000 and $329,000 in 2010 and 2009, respectively. The Board has no liability for future payments to retirees under these programs and is not accountable for the assets of the plans.

Employees of the Board may also participate in the Federal Reserve System's Thrift Plan or Roth 401(k). Board contributions to members' accounts were $16,695,000 and $14,342,000 in 2010 and 2009, respectively.

7. ACCUMULATED POSTRETIREMENT BENEFITS

The Board provides certain life insurance programs for its active employees and retirees. Activity as of December 31, 2010 and 2009, is summarized in the following tables:

	2010	2009
Change in projected benefit obligation:		
Benefit obligation — beginning of year	$ 9,304,324	$ 8,527,800
Service cost	188,357	169,687
Interest cost	532,592	516,194
Plan participants' contributions	-	-
Actuarial (gain) loss	464,667	361,009
Gross benefits paid	(270,268)	(270,366)
Curtailments	-	-
Benefit obligation — end of year	$ 10,219,672	$ 9,304,324
Weighted-average assumptions used to determine benefit obligation as of December 31 — discount rate	5.25 %	5.75 %
Change in plan assets:		
Fair value of plan assets — beginning of year	$ -	$ -
Employer contributions	270,268	270,366
Gross benefits paid	(270,268)	(270,366)
Fair value of plan assets — end of year	$ -	$ -
Funded status:		
Reconciliation of funded status — end of year:		
Fair value of plan assets	$ -	$ -
Benefit obligations	10,219,672	9,304,324
Funded status	(10,219,672)	(9,304,324)
Amount recognized — end of year	$ (10,219,672)	$ (9,304,324)
Amounts recognized in the statements of financial position consist of:		
Asset	$ -	$ -
Liability	(10,219,672)	(9,304,324)
Net amount recognized	$ (10,219,672)	$ (9,304,324)

	2010	2009
Amounts recognized in accumulated other comprehensive income consist of:		
Net actuarial loss (gain)	$1,917,176	$1,528,733
Prior service cost (credit)	(276,534)	(302,024)
	$1,640,642	$1,226,709
Expected cash flows:		
Expected employer contributions — 2011	$ 337,952	
Expected benefit payments:*		
2011	$ 337,952	
2012	354,971	
2013	383,010	
2014	411,414	
2015	439,387	
2016–2020	2,623,724	
*Expected benefit payments to be made from System assets		
Components of net periodic benefit cost:		
Service cost	$ 188,357	$ 169,687
Interest cost	532,592	516,194
Expected return on plan assets	-	-
Amortization:		
Actuarial (gain) loss	76,224	55,878
Prior service (credit) cost	(25,490)	(25,490)
Net periodic benefit cost (credit)	$ 771,683	$ 716,269
Weighted-average assumptions used to determine net periodic benefit cost — discount rate	5.75 %	6.00 %
Other changes in plan assets and benefit obligations recognized in other comprehensive income:		
Current year actuarial (gain) loss	$ 464,667	$ 361,009
Amortization of prior service credit (cost)	25,490	25,490
Amortization of actuarial gain (loss)	$ (76,224)	$ (55,878)
Total recognized in other comprehensive income	$ 413,933	$ 330,621
Total recognized in net periodic benefit cost and other comprehensive income	$1,185,616	$1,046,890

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in 2011 are shown below:

Net actuarial (gain) loss	$ 110,901
Prior service (credit) cost	(25,490)
Total	$ 85,411

8. ACCUMULATED POSTEMPLOYMENT BENEFITS

The Board provides certain postemployment benefits to eligible former or inactive employees and their dependents during the period subsequent to employment but prior to retirement. Postemployment costs were actuarially determined using a December 31 measurement date and discount rates of 3.50% and 4.00% as of December 31, 2010 and 2009, respectively. The accrued postemployment benefit costs recognized by the Board as of December 31, 2010 and 2009, were $701,000 and $1,754,000, respectively.

9. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

A reconciliation of beginning and ending balances of accumulated other comprehensive income (loss) for the years ended December 31, 2010 and 2009, is as follows:

	Amount Related to Defined Benefit Retirement Plans	Amount Related to Postretirement Benefits Other Than Pensions	Total Accumulated Other Comprehensive Income (Loss)
Balance — January 1, 2009	$ 8,378,074	$ 896,088	$ (9,274,162)
Change in funded status of benefit plans:			
Prior service (credit) cost arising during the year	315,842	-	(315,842)
Amortization of prior service credit (costs)	(566,652)	25,490	541,162
Amortization of net actuarial gain (loss)	(297,673)	(55,878)	353,551
Net actuarial (gain) loss arising during the year	110,805	361,009	(471,814)
Change in funded status of benefit plans — other comprehensive income (loss)	(437,678)	330,621	107,057
Balance — December 31, 2009	7,940,396	1,226,709	(9,167,105)
Change in funded status of benefit plans:			
Prior service (credit) cost arising during the year			
Amortization of prior service credit (costs)	(543,685)	25,490	518,195
Amortization of net actuarial gain (loss)	(500,512)	(76,224)	576,736
Net actuarial (gain) loss arising during the year	6,090,681	464,667	(6,555,348)
Change in funded status of benefit plans — other comprehensive income (loss)	5,046,484	413,933	(5,460,417)
Balance — December 31, 2010	$ 12,986,880	$ 1,640,642	$ (14,627,522)

Additional detail regarding the classification of accumulated other comprehensive income (loss) is included in Notes 6 and 7.

10. FEDERAL RESERVE BANKS

The Board performs certain functions for the Reserve Banks in conjunction with its responsibilities for the System, and the Reserve Banks provide certain administrative functions for the Board. Activity related to the Board and Reserve Banks as of December 31, 2010 and 2009, is summarized in the following table:

	2010	2009
Reserve Bank expenses charged to the Board:		
Data processing and communication	$ 919,889	$ 776,835
Contingency site	1,254,331	1,171,808
Total Reserve Bank expenses charged to the Board	$ 2,174,220	$ 1,948,643
Board expenses charged to the Reserve Banks:		
Assessments for currency costs:		
Printing	$ 598,238,821	$ 479,255,288
Shipping	16,900,584	15,367,546
Retirement	3,513,538	3,608,937
Research and development	4,205,705	3,913,112
Assessments for operating expenses of the Board	422,200,000	386,399,900
Data processing	483,512	635,235
Total Board expenses charged to the Reserve Banks	$ 1,045,542,160	$ 889,180,018
Accounts receivable due from the Reserve Banks	$ 856,685	$ 1,071,932

The Board contracted for audit services on behalf of entities that are included in the combined financial statements of the Federal Reserve Banks. The entities reimburse the Board for the cost of the audit services. The Board accrued liabilities of $322,000 and $138,000 in audit services and recorded receivables of $322,000 and $138,000 from the entities as of December 31, 2010 and 2009, respectively.

11. FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

The Board is one of the five member agencies of the Federal Financial Institutions Examination Council (the Council), and currently performs certain management functions for the Council. The five agencies that are represented on the Council are the Board, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and Office of Thrift Supervision.

The Board's financial statements do not include financial data for the Council. Activity related to the Board and Council, as of December 31, 2010 and 2009, is summarized in the following table:

	2010	2009
Council expenses charged to the Board:		
Assessments for operating expenses	$ 126,469	$ 67,998
Assessments for examiner education	672,153	734,359
Central Data Repository	1,202,704	1,522,597
Uniform Bank Performance Report	154,877	210,293
Total Council expenses charged to the Board	$2,156,203	$2,535,247
Board expenses charged to the Council:		
Data processing related services	$4,897,107	$4,884,868
Administrative services	245,000	245,000
Total Board expenses charged to the Council	$5,142,107	$5,129,868
Accounts receivable due from the Council	$ 579,792	$ 618,861
Accounts payable due to the Council	290,047	209,922

In 2007, the Council began a rewrite of the Home Mortgage Disclosure Act processing system, for which the Board provides data processing services. The total cost of the rewrite for the Council is $2.7 million of which the Board expense to support this effort was $464,000 through December 31, 2010.

12. THE OFFICE OF EMPLOYEE BENEFITS OF THE FEDERAL RESERVE SYSTEM

The Office of Employee Benefits of the Federal Reserve System (OEB) administers certain System benefit programs on behalf of the Board and the Reserve Banks, and costs associated with the OEB's activities are assessed to the Board and Reserve Banks. The Board was assessed $2,371,000 and $2,166,000 as of December 31, 2010 and 2009, respectively.

13. THE BUREAU OF CONSUMER FINANCIAL PROTECTION

Sec. 1017 of the Dodd-Frank Act requires the Board to fund the Bureau the amount needed to carry out the authorities granted to the Bureau under Federal consumer financial law. Beginning July 2011, the Act limits the amount to be transferred each fiscal year to a fixed percentage of the System's total operating expenses. During 2010, the Board received and processed funding requests for the Bureau totaling $32,770,000.

14. THE OFFICE OF FINANCIAL RESEARCH

Sec. 155(c) of the Dodd-Frank Act requires the Board to provide an amount sufficient to cover the expenses of the Office for the 2-year period following the date of the enactment (July 21, 2010). The expenses of the FSOC are included in the expenses of the Office. During 2010, the Board received and processed funding requests for the Office totaling $9,515,944.

15. BUREAU OF ENGRAVING AND PRINTING

The Bureau of Engraving and Printing is the sole supplier for currency printing and also provides retirement services. The currency costs incurred as of December 31, 2010 and 2009, are reflected in the following table:

	2010	2009
Currency expenses charged to the Board:		
Printing	$ 598,238,821	$ 479,255,288
Retirement	3,513,538	3,608,937
Total currency expenses charged to the Board	$ 601,752,359	$ 482,864,225

16. COMMITMENTS AND CONTINGENCIES

Commitments — The Board has entered into an agreement with the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, through the Council, to fund a portion of the enhancements and maintenance fees for a central data repository project through 2010 with an option to extend maintenance through 2013. The estimated Board expense to support this effort is $7.9 million for the base period and $2.6 million for the option period.

Litigation and Contingent Liabilities — The Board is subject to contingent liabilities which arise from litigation cases and various business contracts. These contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. Based on information currently available to management, it is management's opinion that the expected outcome of these matters, in the aggregate, will not have a materially adverse effect on the financial statements.

Civil cases against the Board arising out of The Freedom of Information Act permits recovery of attorneys fees in civil cases where the plaintiff "substantially prevails". There are two pending cases in which it is possible that the Board could be required to pay fees in excess of $205,000 per case.

17. SUBSEQUENT EVENTS

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2010. Subsequent events were evaluated through February 28, 2011, which is the date the financial statements were available to be issued.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Governors of the Federal Reserve System:

We have audited the financial statements of the Board of Governors of the Federal Reserve System (the "Board") as of and for the year ended December 31, 2010, and have issued our report thereon dated February 28, 2011. We conducted our audit in accordance generally accepted auditing standards as established by the Auditing Standards Board (United States), auditing standards of the Public Company Accounting Oversight Board (United States), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In accordance with standards of the Public Company Accounting Oversight Board (United States) and *Government Auditing Standards*, we have also issued our report dated February 28, 2011, on our tests of the Board's internal control over financial reporting. The purpose of that report is to describe the scope and the results of that testing. That report is an integral part of an audit performed in accordance with standards of the Public Company Accounting Oversight Board (United States) and *Government Auditing Standards* and should be considered in assessing the results of our audit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

Distribution

This report is intended solely for the information and use of the Board, management, and others within the organization, Office of Inspector General, the United States Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLP

February 28, 2011