Board of Governors of The Federal Reserve System

Financial Statements as of and for the
Years Ended December 31, 2011 and 2010,
and Independent Auditors' Report

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

TABLE OF CONTENTS

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

March 8, 2012

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, 2011, 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. 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 the Board's receipts and expenditures are being made only in accordance with authorizations of its management; 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.

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 [signature]
Richard A. Anderson
Chief Operating Officer

by William L. Mitchell
William L. Mitchell
Chief Financial Officer

Deloitte & Touche LLP
Suite 800
1750 Tysons Boulevard
McLean, VA 22102-4219
USA

Tel: +1 703 251 1000
Fax: +1 703 251 3400
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Governors of the Federal Reserve System:
Washington, D.C.

We have audited the accompanying balance sheets of the Board of Governors of the Federal Reserve System (the "Board") as of December 31, 2011 and 2010, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, 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, 2011 and 2010, 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, 2011, 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 March 8, 2012 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 March 8, 2012, 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

March 8, 2012

Deloitte.

Deloitte & Touche LLP
Suite 800
1750 Tysons Boulevard
McLean, VA 22102-4219
USA

Tel: +1 703 251 1000
Fax: +1 703 251 3400
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Governors of the Federal Reserve System:
Washington, D.C.

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, 2011, 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 generally accepted accounting principles. 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, 2011, 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, 2011 of the Board and our report dated March 8, 2012 expressed an unqualified opinion on those financial statements.

Deloitte + Touche LLP

March 8, 2012

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BALANCE SHEETS
AS OF DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash	$ 73,592,126	$ 55,142,632
Accounts receivable — net	5,433,087	3,234,076
Prepaid expenses and other assets	3,338,770	2,657,914
Total current assets	82,363,983	61,034,622
NONCURRENT ASSETS:		
Property, equipment, and software — net	181,903,601	156,767,186
Other assets	476,795	576,659
Total noncurrent assets	182,380,396	157,343,845
TOTAL	$ 264,744,379	$ 218,378,467
LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 25,686,787	$ 15,403,521
Accrued payroll and related taxes	18,616,534	21,894,036
Accrued annual leave	27,281,750	26,337,190
Capital lease payable	237,479	544,878
Unearned revenues and other liabilities	872,868	556,846
Total current liabilities	72,695,418	64,736,471
LONG-TERM LIABILITIES:		
Capital lease payable	-	237,479
Accumulated retirement benefit obligation	27,485,712	21,979,219
Accumulated postretirement benefit obligation	11,799,079	10,219,672
Accumulated postemployment benefit obligation	11,145,144	13,813,254
Other long-term liabilities	20,261,325	3,545,936
Total long-term liabilities	70,691,260	49,795,560
Total liabilities	143,386,678	114,532,031
CUMULATIVE RESULTS OF OPERATIONS:		
Fund balance	138,451,243	118,473,958
Accumulated other comprehensive income (loss)	(17,093,542)	(14,627,522)
Total cumulative results of operations	121,357,701	103,846,436
TOTAL	$ 264,744,379	$ 218,378,467

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, 2011 AND 2010

	2011	2010
BOARD OPERATING REVENUES:		
Assessments levied on Federal Reserve Banks for Board operating expenses and capital expenditures	$ 472,300,000	$ 422,200,000
Other revenues	6,555,903	8,693,489
Total operating revenues	478,855,903	430,893,489
BOARD OPERATING EXPENSES:		
Salaries	274,866,723	268,168,023
Retirement and insurance	58,186,546	56,788,740
Contractual services and professional fees	37,486,707	48,698,913
Depreciation, amortization, and net gains or losses on disposals	19,496,451	15,865,704
Utilities	8,736,997	8,628,394
Travel	14,583,555	10,847,795
Software	9,399,273	8,057,580
Postage and supplies	10,760,230	7,100,302
Repairs and maintenance	4,774,395	3,384,994
Printing and binding	2,345,881	2,240,489
Other expenses	18,241,860	16,316,499
Total operating expenses	458,878,618	446,097,433
RESULTS OF OPERATIONS	19,977,285	(15,203,944)
CURRENCY COSTS:		
Assessments levied or to be levied on Federal Reserve Banks for currency costs	650,010,597	622,858,648
Expenses for costs related to currency	650,010,597	622,858,648
Currency assessments over (under) expenses	-	-
BUREAU OF CONSUMER FINANCIAL PROTECTION (BUREAU):		
Assessments levied on the Federal Reserve Banks for the Bureau	241,711,564	32,770,000
Transfers to the Bureau	241,711,564	32,770,000
Bureau assessments over (under) transfers	-	-
OFFICE OF FINANCIAL RESEARCH (OFFICE):		
Assessments levied on the Federal Reserve Banks for the Office	40,000,000	9,515,944
Transfers to the Office	40,000,000	9,515,944
Office assessments over (under) transfers	-	-
TOTAL RESULTS OF OPERATIONS	$ 19,977,285	$ (15,203,944)

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 (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
CUMULATIVE RESULTS OF OPERATIONS — Beginning of year	$ 103,846,436	$ 124,510,797
OTHER COMPREHENSIVE INCOME:		
Amortization of prior service (credit) cost	507,786	518,195
Amortization of net actuarial (gain) loss	653,874	576,736
Net actuarial gain (loss) arising during the year	(3,627,680)	(6,555,348)
Total other comprehensive income (loss)	(2,466,020)	(5,460,417)
CUMULATIVE RESULTS OF OPERATIONS — End of year	$ 121,357,701	$ 103,846,436

See notes to financial statements.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Results of operations	$ 19,977,285	$ (15,203,944)
Adjustments to reconcile results of operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	19,015,100	15,877,105
Net loss (gain) on disposal of property and equipment	481,351	(11,401)
Other additional non-cash adjustments to results of operations	351,867	658,587
(Increase) decrease in assets:		
Accounts receivable, prepaid expenses and other assets	(2,780,003)	730,143
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	5,340,020	(822,981)
Accrued payroll and related taxes	(3,277,502)	10,953,052
Accrued annual leave	944,560	1,516,146
Unearned revenues and other liabilities	316,022	(2,425,783)
Net retirement benefit obligation	4,128,953	3,911,348
Net postretirement benefit obligation	490,927	501,415
Net postemployment benefit obligation	(2,668,110)	(650,711)
Other long-term liabilities	298,191	3,130,612
Net cash provided by (used in) operating activities	42,618,661	18,163,588
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(23,585,868)	(17,296,078)
Net cash provided by (used in) investing activities	(23,585,868)	(17,296,078)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital lease payments	(583,299)	(517,709)
Net cash provided by (used in) financing activities	(583,299)	(517,709)
NET INCREASE (DECREASE) IN CASH	18,449,494	349,801
CASH BALANCE — Beginning of year	55,142,632	54,792,831
CASH BALANCE — End of year	$ 73,592,126	$ 55,142,632

See notes to financial statements.

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 Federal Reserve Banks, was established as a federal government agency and is supported by primarily Washington, D.C. based staff numbering approximately 2,300, 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 Federal Reserve Bank and a consolidated statement for all of the Federal 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 Federal 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.

The Dodd-Frank Wall Street Reform and Consumer Financial Protection Act of 2010 (Dodd-Frank Act) established the Bureau of Consumer Financial Protection (Bureau) as an independent bureau within the System and designated the Board's Office of Inspector General (OIG) as the OIG for the Bureau. As required by the Dodd-Frank Act, the Board transferred certain responsibilities to the Bureau in July 2011. The Dodd-Frank Act also created the Financial Stability Oversight Council (FSOC) of which the Chairman of the Board is a member, as well as the Office of Financial Research (Office) within the U.S. Department of the Treasury to provide support to the FSOC and the member agencies. The Dodd-Frank Act requires that the Board provide funding for the FSOC and the Office until July 2012. 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 FSOC, or the Office other than the funding that the Board is required by the Dodd-Frank Act to provide.

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 the Federal Reserve Banks and the Federal Open Market Committee. The Board also supervises and regulates the operations of the Federal Reserve Banks and exercises broad responsibility in the nation's payments system. 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, savings and loan holding companies, foreign activities of member banks, U.S. activities of foreign banks, and any systemically important nonbank financial companies that are designated by the FSOC. Although the Dodd-Frank Act gave the Bureau general rule-writing responsibility for Federal consumer financial laws, the Board retains rule-writing responsibility under the Community Reinvestment Act and other specific statutory provisions. The Board also enforces the requirements of Federal consumer financial laws for state member banks with assets of $10 billion or less. In addition, the Board enforces certain other consumer laws at all state member banks, regardless of size.

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 Federal Reserve Banks to fund its operations. The Board levies the assessment based on each Federal 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.

Assessments for Supervisory and Regulatory Responsibilities — Section 318(c) of the Dodd-Frank Act requires that "the Board shall collect a total amount of assessments, fees, or other charges from the companies described in paragraph (2) that is equal to the total expenses the Board estimates are necessary or appropriate to carry out the supervisory and regulatory responsibilities of the Board with respect to such companies." The companies described in paragraph (2) are those bank holding companies and savings and loan holding companies with total consolidated assets of $50 billion or more, and any systemically important nonbank financial companies that are designated by the FSOC.

As of December 31, 2011, the Board has not issued rulemaking regarding this new responsibility, and does not currently anticipate finalizing any such rulemaking until later in 2012. As such, sufficient information is not available to determine a reasonable estimate of the fees that it may eventually collect under this section of the Dodd-Frank Act. Therefore, the Board has not accrued receivables or recognized revenues in the 2011 financial statements related to this new responsibility.

Currency Costs — The 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 Federal Reserve Banks for the expenses related to producing, issuing, and retiring Federal Reserve notes as well as providing educational services. The assessment is allocated based on each Federal Reserve Bank's share of the number of notes comprising the 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. Construction in process include costs incurred for short-term and long-term projects that have not been placed into service. The majority of the balance represents long-term building enhancement projects.

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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 350-40 *Intangibles-Goodwill and Other – Internal Use Software*.

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 FASB ASC Topic 605 *Revenue Recognition*, 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 FASB ASC Topic 840 *Leases*, rent abatements, lease incentives, 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.

Lease incentives impact deferred rent, are reflected as non-cash transactions in the Cash Flow from Operating Activities section within the Cash Flow Statement, and are discussed in the leases footnote. The other non-cash transaction within this section of the Cash Flow Statement relates to a donated asset discussed in the currency footnote.

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, 2011 and 2010:

	2011	2010
Land	$ 18,640,314	$ 18,640,314
Buildings and Improvements	195,869,546	163,868,033
Construction in process	13,952,693	4,810,307
Furniture and Equipment	66,604,104	68,037,574
Software in Use	27,091,292	24,244,811
Software in Process	1,384,526	1,985,544
Vehicles	521,419	255,159
Other Intangible assets	496,675	496,675
Subtotal	324,560,569	282,338,417
Less accumulated depreciation and amortization	(142,656,968)	(125,571,231)
Property, equipment, and software — net	$ 181,903,601	$156,767,186

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 2011 and 2010. Accumulated depreciation includes $1,852,000 and $1,319,000 under capital leases as of 2011 and 2010, 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, 2011, are as follows:

	Amount
Total minimum lease payments for 2012	$ 421,924
Less amount representing maintenance	(183,112)
Net minimum lease payments	238,812
Less amount representing interest	(1,333)
Present value of net minimum lease payments	237,479
Less current maturities of capital lease payments	(237,479)
Long-term capital lease obligations	$ -

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, 2011, are as follows:

Years Ended December 31,	
2012	$ 12,459,159
2013	14,572,539
2014	14,950,511
2015	15,393,532
After 2015	86,694,634
	$ 144,070,375

Rental expenses under the operating leases were $6,093,000 and $6,882,000 for the years ended December 31, 2011 and 2010, respectively.

The Board leases and subleases space, primarily to other governmental agencies. The revenues collected for these leases from the governmental agencies were $480,000 and $1,937,000 in 2011 and 2010, respectively.

Deferred Rent — Other long-term liabilities include deferred rent of $19,733,000 and 3,051,000 for the years ended December 31, 2011 and 2010, respectively. The 2011 ending balance includes non-cash lease incentives of $16,417,000.

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, the Office of Employee Benefits of the Federal Reserve System (OEB), and certain employees of the Bureau. Under the Dodd-Frank Act, newly hired employees of the Bureau are eligible to participate in the System Plan and transferees from other governmental organizations can elect to participate in the System Plan. 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. During the year ended December 31, 2011, certain costs associated with the System Plan were reimbursed by the Bureau. Costs associated with the System Plan were not redistributed to participating employers during the year ended December 31, 2010.

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 2011, the System made $420 million in contributions to the System Plan; the contributions may be adjusted upon completion of the 2012 actuarial valuation. The Board was not assessed a contribution for 2011.

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, 2011 and 2010, is summarized in the following tables:

	2011	2010
Change in projected benefit obligation:		
Benefit obligation — beginning of year	$ 11,933,435	$ 5,900,567
Service cost	1,456,457	1,359,828
Interest cost	602,381	545,688
Plan participants' contributions	-	-
Actuarial (gain) loss	567,091	4,155,013
Gross benefits paid	(35,438)	(27,661)
Transfers to CFPB	(376,740)	-
Benefit obligation — end of year	$ 14,147,186	$ 11,933,435
Accumulated benefit obligation — end of year	$ 2,351,832	$ 1,686,998
Weighted-average assumptions used to determine benefit obligation as of December 31:		
Discount rate	4.50 %	5.50 %
Rate of compensation increase	5.00 %	5.00 %
Change in plan assets:		
Fair value of plan assets — beginning of year	$ -	$ -
Employer contributions	35,438	27,661
Plan participants' contributions	-	-
Gross benefits paid	(35,438)	(27,661)
Fair value of plan assets — end of year	$ -	$ -
Funded status:		
Reconciliation of funded status — end of year:		
Fair value of plan assets	$ -	$ -
Benefit obligations	14,147,186	11,933,435
Funded status	(14,147,186)	(11,933,435)
Amount recognized — end of year	$ (14,147,186)	$ (11,933,435)
Amounts recognized in the statements of financial position consist of:		
Asset	$ -	$ -
Liability	(14,147,186)	(11,933,435)
Net amount recognized	$ (14,147,186)	$ (11,933,435)
Amounts recognized in accumulated other comprehensive income consist of:		
Net actuarial loss (gain)	$ 5,535,793	$ 5,575,910
Prior service cost (credit)	699,952	701,833
Net amount recognized	$ 6,235,745	$ 6,277,743

Expected cash flows:		
Expected employer contributions — 2012	$	67,738
Expected benefit payments:*		
2012	$	67,738
2013		78,622
2014		88,824
2015		99,039
2016		114,703
2017–2021		776,755

*Expected benefit payments to be made from System assets

	2011	2010
Components of net periodic benefit cost:		
Service cost	$ 1,456,457	$ 1,359,828
Interest cost	602,381	545,688
Expected return on plan assets	-	-
Amortization:		
Actuarial (gain) loss	230,468	287,957
Prior service (credit) cost	1,881	12,290
Net periodic benefit cost (credit)	$ 2,291,187	$ 2,205,763
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	5.50 %	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 actuarial (gain) loss	$ 190,351	$ 4,155,013
Amortization of prior service credit (cost)	(1,881)	(12,290)
Amortization of actuarial gain (loss)	(230,468)	(287,957)
Total recognized in other comprehensive (income) loss	$ (41,998)	$ 3,854,766
Total recognized in net periodic benefit cost and other comprehensive income	$ 2,249,189	$ 6,060,529

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in 2012 are shown below:

Net actuarial (gain) loss	$ 424,241
Prior service (credit) cost	78,985
Total	$ 503,226

On October 30, 2008, the Board approved a non-qualified plan for Officers of the Board. The retirement benefits covered under the Pension Enhancement Plan (PEP) (formerly the Board Officer Pension Enhancement) increases the pension benefit calculation from 1.8% above the Social Security integration level to 2.0%. Activity for the PEP as of December 31, 2011 and 2010, is summarized in the following tables:

	2011	2010
Change in projected benefit obligation:		
Benefit obligation — beginning of year	$ 9,949,637	$ 7,120,820
Service cost	489,236	409,007
Interest cost	589,888	493,780
Plan participants' contributions	-	-
Actuarial (gain) loss	2,401,971	1,935,668
Gross benefits paid	(57,124)	(9,638)
Transfers to CFPB	(123,399)	-
Benefit obligation — end of year	$ 13,250,209	$ 9,949,637
Accumulated benefit obligation — end of year	$ 10,000,174	$ 7,063,653
Weighted-average assumptions used to determine benefit obligation as of December 31:		
Discount rate	4.50 %	5.50 %
Rate of compensation increase	5.00 %	5.00 %
Change in plan assets:		
Fair value of plan assets — beginning of year	$ -	$ -
Employer contributions	57,124	9,638
Plan participants' contributions	-	-
Gross benefits paid	(57,124)	(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	13,250,209	9,949,637
Funded status	(13,250,209)	(9,949,637)
Amount recognized — end of year	$ (13,250,209)	$ (9,949,637)
Amounts recognized in the statements of financial position consist of:		
Asset	$ -	$ -
Liability	(13,250,209)	(9,949,637)
Net amount recognized	$ (13,250,209)	$ (9,949,637)

		2011	2010
Amounts recognized in accumulated other comprehensive income consist of:			
Net actuarial loss (gain)		$ 5,416,792	$ 3,465,859
Prior service cost (credit)		2,711,883	3,243,278
Net amount recognized		$ 8,128,675	$ 6,709,137
Expected cash flows:			
Expected employer contributions — 2012	$ 97,485		
Expected benefit payments:**			
2012	$ 97,485		
2013	151,288		
2014	213,417		
2015	279,210		
2016	344,635		
2017–2021	2,877,198		
**Expected benefit payments to be made from System assets			
Components of net periodic benefit cost:			
Service cost		$ 489,236	$ 409,007
Interest cost		589,888	493,780
Expected return on plan assets		-	-
Amortization:			
Actuarial (gain) loss		327,639	212,555
Prior service (credit) cost		531,395	531,395
Net periodic benefit cost (credit)		$ 1,938,158	$ 1,646,737
Weighted-average assumptions used to determine net periodic benefit cost:			
Discount rate		5.50 %	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 actuarial (gain) loss		$ 2,278,572	$ 1,935,668
Amortization of prior service credit (cost)		(531,395)	(531,395)
Amortization of actuarial gain (loss)		(327,639)	(212,555)
Total recognized in other comprehensive (income) loss		$ 1,419,538	$ 1,191,718
Total recognized in net periodic benefit cost and other comprehensive income		$ 3,357,696	$ 2,838,455

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in 2012 are shown below:

Net actuarial (gain) loss	$ 486,710
Prior service (credit) cost	531,395
Total	$ 1,018,105

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, 2011 and 2010 is summarized in the following table:

	2011	**2010**
Accumulated retirement benefit obligation:		
Benefit obligation — BEP	$14,147,186	$11,933,435
Benefit obligation — PEP	13,250,209	9,949,637
Additional benefit obligations	88,317	96,147
Total accumulated retirement benefit obligation	$27,485,712	$21,979,219

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 $523,000 and $452,000 in 2011 and 2010, 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 $17,699,000 and $16,695,000 in 2011 and 2010, respectively.

7. ACCUMULATED POSTRETIREMENT BENEFITS

The Board provides certain life insurance programs for its active employees and retirees. Activity as of December 31, 2011 and 2010, is summarized in the following tables:

	2011	2010
Change in projected benefit obligation:		
Benefit obligation — beginning of year	$ 10,219,672	$ 9,304,324
Service cost	186,268	188,357
Interest cost	529,161	532,592
Plan participants' contributions	-	-
Actuarial (gain) loss	1,158,757	464,667
Gross benefits paid	(294,779)	(270,268)
Benefit obligation — end of year	$ 11,799,079	$ 10,219,672
Weighted-average assumptions used to determine benefit obligation as of December 31 — discount rate	4.50 %	5.25 %
Change in plan assets:		
Fair value of plan assets — beginning of year	$ -	$ -
Employer contributions	294,779	270,268
Gross benefits paid	(294,779)	(270,268)
Fair value of plan assets — end of year	$ -	$ -
Funded status:		
Reconciliation of funded status — end of year:		
Fair value of plan assets	$ -	$ -
Benefit obligations	11,799,079	10,219,672
Funded status	(11,799,079)	(10,219,672)
Amount recognized — end of year	$ (11,799,079)	$ (10,219,672)
Amounts recognized in the statements of financial position consist of:		
Asset	$ -	$ -
Liability	(11,799,079)	(10,219,672)
Net amount recognized	$ (11,799,079)	$ (10,219,672)

		2011	2010
Amounts recognized in accumulated other comprehensive income consist of:			
Net actuarial loss (gain)		$ 2,980,166	$ 1,917,176
Prior service cost (credit)		(251,044)	(276,534)
Net amount recognized		$ 2,729,122	$ 1,640,642
Expected cash flows:			
Expected employer contributions — 2012	$ 349,523		
Expected benefit payments:*			
2012	$ 349,523		
2013	375,715		
2014	404,358		
2015	431,631		
2016	462,469		
2017–2021	2,714,234		
*Expected benefit payments to be made from System assets			
Components of net periodic benefit cost:			
Service cost		$ 186,268	$ 188,357
Interest cost		529,161	532,592
Expected return on plan assets		-	-
Amortization:			
Actuarial (gain) loss		95,767	76,224
Prior service (credit) cost		(25,490)	(25,490)
Net periodic benefit cost (credit)		$ 785,706	$ 771,683
Weighted-average assumptions used to determine net periodic benefit cost — discount rate		5.25 %	5.75 %
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Current year actuarial (gain) loss		$ 1,158,757	$ 464,667
Amortization of prior service credit (cost)		25,490	25,490
Amortization of actuarial gain (loss)		(95,767)	(76,224)
Total recognized in other comprehensive (income) loss		$ 1,088,480	$ 413,933
Total recognized in net periodic benefit cost and other comprehensive income		$ 1,874,186	$ 1,185,616

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in 2012 are shown below:

Net actuarial (gain) loss	$221,302
Prior service (credit) cost	(25,490)
Total	$195,812

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 2.25% and 3.50% as of December 31, 2011 and 2010, respectively. The net periodic postemployment benefit cost (credit) recognized by the Board as of December 31, 2011 and 2010, were ($1,606,000) and $701,000, 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, 2011 and 2010, 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, 2010	$ (7,940,396)	$ (1,226,709)	$ (9,167,105)
Change in funded status of benefit plans:			
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)
Change in funded status of benefit plans:			
Amortization of prior service (credit) costs	533,276	(25,490)	507,786
Amortization of net actuarial (gain) loss	558,107	95,767	653,874
Net actuarial gain (loss) arising during the year	(2,468,923)	(1,158,757)	(3,627,680)
Change in funded status of benefit plans — other comprehensive income (loss)	(1,377,540)	(1,088,480)	(2,466,020)
Balance — December 31, 2011	$ (14,364,420)	$ (2,729,122)	$ (17,093,542)

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 Federal Reserve Banks in conjunction with its responsibilities for the System, and the Federal Reserve Banks provide certain administrative functions for the Board. The Board assesses the Federal Reserve Banks for its operating expenses, to include expenses related to its currency responsibilities, as well as for the funding the Board is required to provide to the Bureau and the Office. Activity related to the Board and Federal Reserve Banks as of December 31, 2011 and 2010, is summarized in the following table:

	2011	2010
Assessments levied or to be levied on Federal Reserve Banks for:		
Currency expenses	$ 650,010,597	$ 622,858,648
Operating expenses of the Board	472,300,000	422,200,000
Operating expenses of the Bureau	241,711,564	32,770,000
Operating expenses of the Office	40,000,000	9,515,944
Total Assessments levied or to be levied on Federal Reserve Banks	$ 1,404,022,161	$ 1,087,344,592
Board expenses charged to the Federal Reserve Banks for data processing	$ 406,421	$ 483,512
Federal Reserve Bank expenses charged to the Board:		
Data processing and communication	$ 788,910	$ 919,889
Contingency site	1,211,362	1,254,331
Total Federal Reserve Bank expenses charged to the Board	$ 2,000,272	$ 2,174,220
Net transactions with Federal Reserve Banks	$ 1,402,428,310	$ 1,085,653,884
Accounts receivable due from the Federal Reserve Banks	$ 2,501,565	$ 856,685
Accounts payable due to the Federal Reserve Banks	$ 16,358	$ -

The Board also 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 $293,000 and $322,000 in audit services and recorded receivables of $500,000 and $322,000 from the entities as of December 31, 2011 and 2010, 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 the Bureau of Consumer Financial Protection.

The Board's financial statements do not include financial data for the Council. Activity related to the Board and Council, as of December 31, 2011 and 2010, is summarized in the following table:

	2011	2010
Council expenses charged to the Board:		
Assessments for operating expenses	$ 137,421	$ 126,469
Assessments for examiner education	810,459	672,153
Central Data Repository	1,113,255	1,202,704
Uniform Bank Performance Report	117,215	154,877
Total Council expenses charged to the Board	$2,178,350	$2,156,203
Board expenses charged to the Council:		
Data processing related services	$4,164,479	$4,897,107
Administrative services	281,000	245,000
Total Board expenses charged to the Council	$4,445,479	$5,142,107
Accounts receivable due from the Council	$ 494,234	$ 579,792
Accounts payable due to the Council	$ 132,539	$ 290,047

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 Federal Reserve Banks, and costs associated with the OEB's activities are assessed to the Board and Federal Reserve Banks. The Board was assessed $2,596,000 and $2,371,000 as of December 31, 2011 and 2010, respectively.

13. THE BUREAU OF CONSUMER FINANCIAL PROTECTION

Sec. 1017 of the Dodd-Frank Act requires the Board to fund the Bureau from the combined earnings of the Federal Reserve System, the amount of which is determined by the Director of the Bureau to be reasonably necessary to carry out the authorities of the Bureau under Federal consumer financial law, taking into account such other sums made available to the Bureau from the preceding year (or quarter of such year).

Beginning July 2011, the Dodd-Frank Act limits the amount to be transferred each fiscal year to a fixed percentage of the System's total operating expenses. The Board received and processed funding requests for the Bureau totaling $241,711,564 and $32,770,000 during calendar years 2011 and 2010, respectively. These requests do not include funding related to the operations of the OIG. The Board and the Bureau are in the process of evaluating the impact of the OIG's dual responsibilities on future funding requests.

As part of the transfer of responsibilities from the Board to the Bureau, certain Board staff were transferred to the Bureau during 2011. The Board will continue to administer certain non-retirement benefits for all transferred Board employees through July 20, 2012.

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. The Board received and processed funding requests for the Office totaling $40,000,000 and $9,515,944 during 2011 and 2010, respectively.

15. CURRENCY

The Bureau of Engraving and Printing (BEP) is the sole supplier for currency printing and also provides currency retirement services. During 2011, the Board assumed greater responsibility for education and quality assurance services associated with currency. The currency costs incurred by the Board as of December 31, 2011 and 2010, are reflected in the following table:

	2011	2010
Expenses related to BEP services:		
Printing	$ 623,214,300	$ 598,238,821
Retirement	3,475,244	3,513,538
Subtotal related to BEP services	$ 626,689,544	$ 601,752,359
Other currency expenses:		
Shipping	$ 15,728,046	$ 16,900,584
Research and development	4,486,525	4,205,705
Quality assurance services	2,992,053	-
Education services	114,429	-
Subtotal other currency expenses	$ 23,321,053	$ 21,106,289
Total currency expenses	$ 650,010,597	$ 622,858,648

In October 2011, the Board received web software from the BEP for the education services the Board is managing as part of its currency responsibilities. The fair market value of the donated asset as of December 31, 2011 was $50,000.

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 that requires maintenance through 2013. The estimated Board expense to support this effort is $2 million for the remaining 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.

17. SUBSEQUENT EVENTS

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2011. Subsequent events were evaluated through March 8, 2012, which is the date the financial statements were available to be issued.

* * * * * *

Deloitte & Touche LLP
Suite 800
1750 Tysons Boulevard
McLean, VA 22102-4219
USA

Tel: +1 703 251 1000
Fax: +1 703 251 3400
www.deloitte.com

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:
Washington, D.C.

We have audited the financial statements of the Board of Governors of the Federal Reserve System (the "Board") as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated March 8, 2012. We conducted our audit 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.

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 March 8, 2012, 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.*

Deloitte + Touche LLP

March 8, 2012