

Board of Governors of The Federal Reserve System

Financial Statements as of and for the
Years Ended December 31, 2009 and 2008,
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

March 19, 2010

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, 2009, 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.

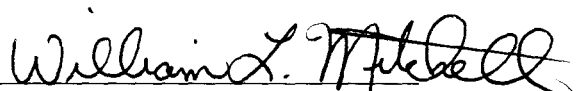
Board management is also responsible for establishing and maintaining effective internal control over financial reporting as it relates to the Financial Statements. Such internal control is designed to provide reasonable assurance to management and to the Committee on Board Affairs regarding the preparation 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 maintained effective internal control over financial reporting as it relates to its Financial Statements.

by 
Stephen R. Malphrus
Staff Director for Management

by 
William L. Mitchell
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

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, 2009 and 2008, 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 respective 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, 2009 and 2008, 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, 2009, 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 19, 2010 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 19, 2010, 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 |

McLean, VA
March 19, 2010

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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, 2009, 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, 2009, 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, 2009 of the Board and our report dated March 19, 2010 expressed an unqualified opinion on those financial statements.

Deloitte + Touche LLP |

McLean, VA
March 19, 2010

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BALANCE SHEETS

AS OF DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash	\$ 54,792,831	\$ 58,255,990
Accounts receivable	2,948,984	2,975,478
Prepaid expenses and other assets	<u>3,693,970</u>	<u>4,817,719</u>
Total current assets	<u>61,435,785</u>	<u>66,049,187</u>
NONCURRENT ASSETS:		
Property, equipment, and software — net (Note 4)	159,267,605	148,875,490
Other assets	<u>1,837,995</u>	<u>2,187,395</u>
Total noncurrent assets	<u>161,105,600</u>	<u>151,062,885</u>
TOTAL	<u>\$222,541,385</u>	<u>\$217,112,072</u>
LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 20,765,464	\$ 13,312,600
Accrued payroll and related taxes	10,940,984	9,313,237
Accrued annual leave	24,821,044	22,234,106
Capital lease payable (Note 4)	533,110	471,266
Unearned revenues and other liabilities	<u>2,982,629</u>	<u>1,843,058</u>
Total current liabilities	<u>60,043,231</u>	<u>47,174,267</u>
LONG-TERM LIABILITIES:		
Capital lease payable (Note 4)	782,357	1,183,466
Accumulated retirement benefit obligation (Note 5)	13,021,387	10,866,659
Accumulated postretirement benefit obligation (Note 6)	9,304,324	8,527,800
Accumulated postemployment benefit obligation (Note 7)	14,463,965	13,900,000
Other long-term liabilities	<u>415,324</u>	<u>648,534</u>
Total long-term liabilities	<u>37,987,357</u>	<u>35,126,459</u>
Total liabilities	<u>98,030,588</u>	<u>82,300,726</u>
CUMULATIVE RESULTS OF OPERATIONS:		
Fund balance	133,677,902	144,085,508
Accumulated other comprehensive income (loss) (Note 8)	<u>(9,167,105)</u>	<u>(9,274,162)</u>
Total cumulative results of operations	<u>124,510,797</u>	<u>134,811,346</u>
TOTAL	<u>\$222,541,385</u>	<u>\$217,112,072</u>

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, 2009 AND 2008

	2009	2008
BOARD OPERATING REVENUES:		
Assessments levied on Federal Reserve Banks for Board operating expenses and capital expenditures	\$386,399,900	\$352,290,700
Other revenues	<u>9,413,565</u>	<u>9,059,232</u>
Total operating revenues	<u>395,813,465</u>	<u>361,349,932</u>
BOARD OPERATING EXPENSES:		
Salaries	243,664,276	219,752,842
Retirement and insurance	50,458,964	48,394,723
Contractual services and professional fees	40,065,160	29,901,374
Depreciation, amortization, and net losses on disposals	13,885,165	13,782,449
Utilities	8,676,782	9,977,809
Travel	11,346,880	9,414,877
Software	8,699,031	7,277,995
Postage and supplies	8,157,780	5,802,368
Repairs and maintenance	5,115,155	3,214,203
Printing and binding	2,597,982	1,825,119
Other expenses	<u>13,553,896</u>	<u>10,870,638</u>
Total operating expenses	<u>406,221,071</u>	<u>360,214,397</u>
RESULTS OF OPERATIONS	<u>(10,407,606)</u>	<u>1,135,535</u>
CURRENCY COSTS:		
Assessments levied on Federal Reserve Banks for currency costs	502,144,883	500,356,895
Expenses for costs related to currency (Note 9)	<u>502,144,883</u>	<u>500,356,895</u>
Currency assessments over (under) expenses	<u>-</u>	<u>-</u>
TOTAL RESULTS OF OPERATIONS	<u>(10,407,606)</u>	<u>1,135,535</u>
CUMULATIVE RESULTS OF OPERATIONS — Beginning of year	<u>134,811,346</u>	<u>141,463,159</u>
OTHER COMPREHENSIVE INCOME (Note 8):		
Prior service credit (cost) arising during the year	(315,842)	(5,059,307)
Amortization of prior service (credit) cost	541,162	73,867
Amortization of net actuarial (gain) loss	353,551	131,578
Net actuarial gain (loss) arising during the year	(471,814)	(3,183,688)
Curtailment effects — prior service credit (cost)	<u>-</u>	<u>250,202</u>
Total other comprehensive income (loss)	<u>107,057</u>	<u>(7,787,348)</u>
CUMULATIVE RESULTS OF OPERATIONS — End of year	<u>\$124,510,797</u>	<u>\$134,811,346</u>

See notes to financial statements.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Results of operations	\$(10,407,606)	\$ 1,135,535
Adjustments to reconcile results of operations to net cash provided by (used in) operating activities:		
Depreciation	13,869,221	13,946,960
Net loss (gain) on disposal of property and equipment	15,944	(164,511)
Decrease (increase) in assets:		
Accounts receivable, prepaid expenses and other assets	1,499,641	(2,164,471)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	1,668,788	(7,087,682)
Accrued payroll and related taxes	1,627,747	3,666,184
Accrued annual leave	2,586,938	3,804,505
Unearned revenues and other liabilities	1,139,571	1,140,936
Accumulated retirement benefit obligation	2,154,728	8,664,984
Accumulated postretirement benefit obligation	776,524	555,331
Accumulated postemployment benefit obligation	563,965	5,044,387
Other long-term liabilities	(233,210)	648,534
Accumulated other comprehensive income	107,057	(7,787,348)
	<u>15,369,308</u>	<u>21,403,344</u>
Net cash provided by (used in) operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposals	866	-
Capital expenditures	(18,346,427)	(9,307,059)
	<u>(18,345,561)</u>	<u>(9,307,059)</u>
Net cash provided by (used in) investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES — Capital lease payments		
	<u>(486,906)</u>	<u>1,545,977</u>
Net cash provided by (used in) financing activities	<u>(486,906)</u>	<u>1,545,977</u>
NET INCREASE (DECREASE) IN CASH	(3,463,159)	13,642,262
CASH BALANCE — Beginning of year	<u>58,255,990</u>	<u>44,613,728</u>
CASH BALANCE — End of year	<u>\$ 54,792,831</u>	<u>\$58,255,990</u>

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, 2009 AND 2008

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 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.

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.

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 transactions in the Board's Statement 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.

Recently Issued Accounting Standards — The Retirement Benefits Topic of the ASC provides rules for the disclosure of information about assets held in a defined benefit plan in the financial statements of the employer sponsoring that plan, and additional disclosures about asset categories and concentrations of risk. It is effective for financial statements with fiscal years ending after December 15, 2009. The provisions of the ASC have been reflected in the accompanying footnotes.

The Subsequent Events Topic of the ASC establishes general standards of accounting for and disclosure of events that occur through the balance sheet date but before financial statements are issued or are available to be issued. The ASC sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (ii) the circumstances under which an entity should

recognize events or transactions occurring after the balance sheet date in its financial statements; and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date, including disclosure of the date through which an entity has evaluated subsequent events and whether that represents the date the financial statements were issued or were available to be issued. The Board adopted the standard for the period ended December 31, 2009.

On June 30, 2009, the FASB issued SFAS No. 168, “The Statement of Financial Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — a replacement of SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles” (SFAS 168). SFAS 168 establishes the FASB ASC as the source of authoritative accounting principles recognized by the FASB to be applied by entities in the preparation of financial statements in conformity with GAAP. The ASC does not change current GAAP, but it introduces a new structure that organizes the authoritative standards by topic. SFAS 168 is effective for financial statements issued for periods ending after September 15, 2009. In accordance with the requirements of this standard, the ASC is referenced in the Board’s financial statements and footnotes.

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, 2009 and 2008:

	2009	2008
Land	\$ 18,640,314	\$ 18,640,314
Buildings and improvements	155,403,350	150,602,767
Furniture and equipment	66,411,669	56,104,247
Software in use	16,196,241	14,514,315
Software in process	6,276,842	3,832,516
Construction in process	<u>8,100,559</u>	<u>3,818,295</u>
	271,028,975	247,512,454
Less accumulated depreciation and amortization	<u>(111,761,370)</u>	<u>(98,636,964)</u>
Property, equipment, and software — net	<u>\$ 159,267,605</u>	<u>\$148,875,490</u>

Construction in process includes costs incurred in 2009 and 2008 for long-term projects and building enhancements. The Board has accrued liabilities related to property, equipment, and software of \$7,131,000 as of December 31, 2009.

The Board entered into capital leases for printing equipment during 2003 that terminated in May 2008. The Board subsequently entered into new capital leases in 2008 and 2009. Under the new commitments, the capital lease term extends through 2012. Furniture and equipment includes \$2,086,000 and \$1,923,000 in 2009 and 2008, respectively, for capitalized leases. Accumulated depreciation includes \$789,000 and \$280,000 for capitalized leases as of 2009 and 2008, respectively. The Board paid interest related to these capital leases in the amount of \$36,000 and \$26,000 as of December 31, 2009 and 2008, respectively. The Board has accrued liabilities related to capital leases of \$148,000 as of December 31, 2009.

The Board has leased space in its buildings to other governmental agencies. The revenues collected from these leases are \$2,037,000 and \$2,034,000 in 2009 and 2008, 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, 2009, are as follows:

Years Ending December 31	Amount
2010	\$ 978,315
2011	978,315
2012	<u>421,925</u>
Total minimum lease payments	2,378,555
Less amount representing maintenance	<u>(1,026,701)</u>
Net minimum lease payments	1,351,854
Less amount representing interest	<u>(36,387)</u>
Present value of net minimum lease payments	1,315,467
Less current maturities of capital lease payments	<u>(533,110)</u>
Long-term capital lease obligations	<u>\$ 782,357</u>

5. 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 only to employees of the Board, the Federal Reserve Banks, and the Office of Employee Benefits of the Federal Reserve System (OEB). 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 2009, the System made \$500 million in contributions to the System Plan; the contributions may be adjusted upon completion of the 2010 actuarial valuation. The Board was not assessed a contribution for 2009.

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, 2009 and 2008, is summarized in the following tables:

	2009	2008
Change in projected benefit obligation:		
Benefit obligation — beginning of year	\$ 4,591,374	\$ 2,201,675
Service cost	712,515	589,094
Interest cost	307,501	213,714
Plan participants' contributions		
Actuarial (gain) loss	(175,635)	1,137,486
Gross benefits paid	(27,649)	(35,016)
Plan amendments	<u>492,461</u>	<u>484,421</u>
Benefit obligation — end of year	<u>\$ 5,900,567</u>	<u>\$ 4,591,374</u>
Accumulated benefit obligation — end of year	<u>\$ 1,245,465</u>	<u>\$ 1,267,005</u>
Weighted-average assumptions used to determine benefit obligation as of December 31:		
Discount rate	6.00 %	6.00 %
Rate of compensation increase	5.00 %	5.00 %
Change in plan assets:		
Fair value of plan assets — beginning of year	\$ -	\$ -
Employer contributions	27,649	35,016
Plan participants' contributions		
Gross benefits paid	<u>(27,649)</u>	<u>(35,016)</u>
Fair value of plan assets — end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Reconciliation of funded status — end of year:		
Fair value of plan assets	\$ -	\$ -
Benefit obligations	<u>5,900,567</u>	<u>4,591,374</u>
Funded status	<u>(5,900,567)</u>	<u>(4,591,374)</u>
Amount recognized — end of year	<u>\$ (5,900,567)</u>	<u>\$ (4,591,374)</u>
Amounts recognized in the statements of financial position consist of:		
Asset	\$ -	\$ -
Liability	<u>(5,900,567)</u>	<u>(4,591,374)</u>
Net amount recognized	<u>\$ (5,900,567)</u>	<u>\$ (4,591,374)</u>
Amounts recognized in accumulated other comprehensive income consist of:		
Net actuarial loss (gain)	\$ 1,708,854	\$ 2,031,269
Prior service cost (credit)	<u>714,123</u>	<u>256,919</u>
	<u>\$ 2,422,977</u>	<u>\$ 2,288,188</u>

Expected cash flows:	
Expected employer contributions — 2010	<u>\$ 111,143</u>
Expected benefit payments:*	
2010	\$ 111,143
2011	149,745
2012	183,388
2013	210,792
2014	232,368
2015–2019	1,421,730

*Expected benefit payments to be made from System assets

	2009	2008
Components of net periodic benefit cost:		
Service cost	\$ 712,515	\$ 589,094
Interest cost	307,501	213,714
Expected return on plan assets		
Amortization:		
Actuarial (gain) loss	146,780	112,474
Prior service (credit) cost	<u>35,257</u>	<u>(5,902)</u>
Net periodic benefit cost (credit)	<u>\$1,202,053</u>	<u>\$ 909,380</u>
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	6.00 %	6.25 % **
Rate of compensation increase	5.00 %	5.00 %

** In 2008, amendments to the System Plan were approved. As a result, the actuarially determined net periodic benefit expenses for the year ended December 31, 2008, were remeasured with a discount rate of 7.75% as of November 1, 2008.

Other changes in plan assets and benefit obligations recognized in other comprehensive income: ***		
Current year prior service (credit) cost	\$ 492,461	\$ 484,421
Current year actuarial (gain) loss	(175,635)	1,137,486
Amortization of prior service credit (cost)	(35,257)	5,902
Amortization of actuarial gain (loss)	<u>(146,780)</u>	<u>(112,474)</u>
Total recognized in other comprehensive income	<u>\$ 134,789</u>	<u>\$1,515,335</u>
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$1,336,842</u>	<u>\$2,424,715</u>

*** For the Benefit Equalization Plan, other changes to assets and benefits recognized in other comprehensive income will be reflected in net periodic cost.

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in 2010 are shown below:

Net actuarial (gain) loss	\$ 114,291
Prior service (credit) cost	<u>12,290</u>
Total	<u>\$ 126,581</u>

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), formerly the Supplemental Employee Retirement Plan (BSERP), 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, 2009 and 2008, is summarized in the following tables:

	2009	2008
Change in projected benefit obligation:		
Benefit obligation — beginning of year	\$ 6,275,285	\$ -
Service cost	333,034	37,190
Interest cost	402,680	56,010
Plan participants' contributions		
Actuarial (gain) loss	286,440	1,607,199
Gross benefits paid		
Plan amendments	<u>(176,619)</u>	<u>4,574,886</u>
Benefit obligation — end of year	<u>\$ 7,120,820</u>	<u>\$ 6,275,285</u>
Accumulated benefit obligation — end of year	<u>\$ 5,175,331</u>	<u>\$ 4,530,540</u>
Weighted-average assumptions used to determine benefit obligation as of December 31:		
Discount rate	6.00 %	6.00 %
Rate of compensation increase	5.00 %	5.00 %
Change in plan assets:		
Fair value of plan assets — beginning of year	\$ -	\$ -
Employer contributions		
Plan participants' contributions		
Gross benefits paid		
Fair value of plan assets — end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Reconciliation of funded status — end of year:		
Fair value of plan assets	\$ -	\$ -
Benefit obligations	<u>7,120,820</u>	<u>6,275,285</u>
Funded status	<u>(7,120,820)</u>	<u>(6,275,285)</u>
Amount recognized — end of year	<u>\$ (7,120,820)</u>	<u>\$ (6,275,285)</u>
Amounts recognized in the statements of financial position consist of:		
Asset	\$ -	\$ -
Liability	<u>(7,120,820)</u>	<u>(6,275,285)</u>
Net amount recognized	<u>\$ (7,120,820)</u>	<u>\$ (6,275,285)</u>

	2009	2008
Amounts recognized in accumulated other comprehensive income consist of:		
Net actuarial loss (gain)	\$ 1,742,746	\$ 1,607,199
Prior service cost (credit)	<u>3,774,673</u>	<u>4,482,687</u>
	<u>\$ 5,517,419</u>	<u>\$ 6,089,886</u>
Expected cash flows:		
Expected employer contributions — 2010	<u>\$ 41,829</u>	
Expected benefit payments:****		
2010	\$ 41,829	
2011	75,298	
2012	115,587	
2013	161,773	
2014	215,737	
2015–2019	1,967,583	
****Expected benefit payments to be made from System assets		
Components of net periodic benefit cost:		
Service cost	\$ 333,034	\$ 37,190
Interest cost	402,680	56,010
Expected return on plan assets		
Amortization:		
Actuarial (gain) loss	150,893	
Prior service (credit) cost	<u>531,395</u>	<u>92,199</u>
Net periodic benefit cost (credit)	<u>\$ 1,418,002</u>	<u>\$ 185,399</u>
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	6.00 %	7.75 %
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)	\$ 4,574,886
Current year actuarial (gain) loss	286,440	1,607,199
Amortization of prior service credit (cost)	(531,395)	(92,199)
Amortization of actuarial gain (loss)	<u>(150,893)</u>	<u></u>
Total recognized in other comprehensive income	<u>\$ (572,467)</u>	<u>\$ 6,089,886</u>
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$ 845,535</u>	<u>\$ 6,275,285</u>

*****For the Board Officer Pension Enhancement, other changes in assets and benefits recognized in other comprehensive income will be reflected in net periodic cost.

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in 2010 are shown below:

Net actuarial (gain) loss	\$ 123,908
Prior service (credit) cost	<u>531,395</u>
Total	<u>\$ 655,303</u>

The total accumulated retirement benefit obligation for both the Benefits Equalization Plan (BEP) and Board Officer Pension Enhancement (BOPE) as of December 31, 2009 and 2008, are as follows:

	2009	2008
Accumulated retirement benefit obligation:		
Benefit obligation — BEP	\$ 5,900,567	\$ 4,591,374
Benefit obligation — BOPE	<u>7,120,820</u>	<u>6,275,285</u>
Total accumulated retirement benefit obligation	<u>\$ 13,021,387</u>	<u>\$ 10,866,659</u>

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 \$329,000 and \$305,000 in 2009 and 2008, 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 \$14,342,000 and \$11,815,000 in 2009 and 2008, respectively.

6. ACCUMULATED POSTRETIREMENT BENEFITS

The Board provides certain life insurance programs for its active employees and retirees. Activity as of December 31, 2009 and 2008, is summarized in the following tables:

	2009	2008
Change in projected benefit obligation:		
Benefit obligation — beginning of year	\$ 8,527,800	\$ 7,972,469
Service cost	169,687	176,450
Interest cost	516,194	505,691
Plan participants' contributions		
Actuarial (gain) loss	361,009	439,003
Gross benefits paid	(270,366)	(315,611)
Curtailments		(250,202)
	<u> </u>	<u> </u>
Benefit obligation — end of year	<u>\$ 9,304,324</u>	<u>\$ 8,527,800</u>
Weighted-average assumptions used to determine benefit obligation as of December 31 — discount rate	<u>5.75 %</u>	<u>6.00 %</u>
Change in plan assets:		
Fair value of plan assets — beginning of year	\$ -	\$ -
Employer contributions	270,366	315,611
Gross benefits paid	(270,366)	(315,611)
	<u> </u>	<u> </u>
Fair value of plan assets — end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status:		
Reconciliation of funded status — end of year:		
Fair value of plan assets	\$ -	\$ -
Benefit obligations	<u>9,304,324</u>	<u>8,527,800</u>
Funded status	<u>(9,304,324)</u>	<u>(8,527,800)</u>
Amount recognized — end of year	<u>\$ (9,304,324)</u>	<u>\$ (8,527,800)</u>
Amounts recognized in the statements of financial position consist of:		
Asset	\$ -	\$ -
Liability	<u>(9,304,324)</u>	<u>(8,527,800)</u>
Net amount recognized	<u>\$ (9,304,324)</u>	<u>\$ (8,527,800)</u>

	2009	2008
Amounts recognized in accumulated other comprehensive income consist of:		
Net actuarial loss (gain)	\$ 1,528,733	\$ 1,223,601
Prior service cost (credit)	<u>(302,024)</u>	<u>(327,513)</u>
	<u>\$ 1,226,709</u>	<u>\$ 896,088</u>
Expected cash flows:		
Expected employer contributions — 2010	<u>\$ 342,502</u>	<u>\$ 321,938</u>
Expected benefit payments:*		
2010	\$ 342,502	
2011	361,970	
2012	381,110	
2013	408,919	
2014	436,116	
2015–2019	2,570,408	
*Expected benefit payments to be made from System assets		
Components of net periodic benefit cost:		
Service cost	\$ 169,687	\$ 176,450
Interest cost	516,194	505,691
Expected return on plan assets		
Amortization:		
Actuarial (gain) loss	55,878	19,104
Prior service (credit) cost	<u>(25,490)</u>	<u>(12,430)</u>
Net periodic benefit cost (credit)	<u>\$ 716,269</u>	<u>\$ 688,815</u>
Weighted-average assumptions used to determine net periodic benefit cost — discount rate	<u>6.00 %</u>	<u>6.25 %</u> **
** In 2008, amendments to the Plan were approved. As a result, the actuarially determined net periodic benefit expenses for the year ended December 31, 2008, were remeasured with a discount rate of 7.75% as of November 1, 2008.		
Other changes in plan assets and benefit obligations recognized in other comprehensive income:		
Current year actuarial (gain) loss	\$ 361,009	\$ 439,003
Amortization of prior service credit (cost)	25,490	12,430
Amortization of actuarial gain (loss)	(55,878)	(19,104)
Curtailed effects — prior service (credit) cost	<u> </u>	<u>(250,202)</u>
Total recognized in other comprehensive income	<u>\$ 330,621</u>	<u>\$ 182,127</u>
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$ 1,046,890</u>	<u>\$ 870,942</u>

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in 2010 are shown below:

Net actuarial (gain) loss	\$ 76,193
Prior service (credit) cost	<u>(25,490)</u>
Total	<u>\$ 50,703</u>

7. 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 4.00% and 2.50% as of December 31, 2009 and 2008, respectively. The accrued postemployment benefit costs recognized by the Board as of December 31, 2009 and 2008, were \$1,754,000 and \$5,974,000, respectively.

8. ACCUMULATED OTHER COMPREHENSIVE INCOME

A reconciliation of beginning and ending balances of accumulated other comprehensive income for the years ended December 31, 2009 and 2008, 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, 2008	\$ 772,853	\$ 713,961	\$ (1,486,814)
Change in funded status of benefit plans:			
Prior service (credit) cost arising during the year	5,059,307		(5,059,307)
Amortization of prior service credit (costs)	(86,297)	12,430	73,867
Amortization of net actuarial gain (loss)	(112,474)	(19,104)	131,578
Net actuarial (gain) loss arising during the year	2,744,685	439,003	(3,183,688)
Curtailment effects — prior service (credit) cost	<u> </u>	<u>(250,202)</u>	<u>250,202</u>
Change in funded status of benefit plans — other comprehensive income (loss)	<u>7,605,221</u>	<u>182,127</u>	<u>(7,787,348)</u>
Balance — December 31, 2008	<u>8,378,074</u>	<u>896,088</u>	<u>(9,274,162)</u>
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	<u>110,805</u>	<u>361,009</u>	<u>(471,814)</u>
Change in funded status of benefit plans — other comprehensive income (loss)	<u>(437,678)</u>	<u>330,621</u>	<u>107,057</u>
Balance — December 31, 2009	<u>\$ 7,940,396</u>	<u>\$ 1,226,709</u>	<u>\$ (9,167,105)</u>

Additional detail regarding the classification of accumulated other comprehensive income is included in Notes 5 and 6.

9. 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, 2009 and 2008, is summarized in the following table:

	2009	2008
Reserve Bank expenses charged to the Board:		
Data processing and communication	\$ 776,835	\$ 2,368,144
Contingency site	<u>1,171,808</u>	<u>1,265,618</u>
Total Reserve Bank expenses charged to the Board	<u>\$ 1,948,643</u>	<u>\$ 3,633,762</u>
Board expenses charged to the Reserve Banks:		
Assessments for currency costs:		
Printing	\$ 479,255,288	\$ 477,927,083
Shipping	15,367,546	14,984,564
Retirement	3,608,937	3,722,146
Research and development	3,913,112	3,723,101
Assessments for operating expenses of the Board	386,399,900	352,290,700
Data processing	<u>635,235</u>	<u>601,957</u>
Total Board expenses charged to the Reserve Banks	<u>\$ 889,180,018</u>	<u>\$ 853,249,551</u>
Accounts receivable due from the Reserve Banks	\$ 1,071,932	\$ 1,016,688
Accounts payable due to the Reserve Banks		295,848

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 \$138,000 and \$313,000 in audit services and recorded receivables of \$138,000 and \$313,000 from the entities as of December 31, 2009 and 2008, respectively.

10. 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, 2009 and 2008, is summarized in the following table:

	2009	2008
Council expenses charged to the Board:		
Assessments for operating expenses	\$ 67,998	\$ 164,889
Central Data Repository	1,522,597	1,352,390
Uniform Bank Performance Report	<u>210,293</u>	<u>185,833</u>
Total Council expenses charged to the Board	<u>\$ 1,800,888</u>	<u>\$ 1,703,112</u>
Board expenses charged to the Council:		
Data processing related services	\$ 4,884,868	\$ 4,683,363
Administrative services	<u>245,000</u>	<u>190,400</u>
Total Board expenses charged to the Council	<u>\$ 5,129,868</u>	<u>\$ 4,873,763</u>
Accounts receivable due from the Council	\$ 618,861	\$ 650,672
Accounts payable due to the Council	209,922	373,466

11. 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 \$2,166,000 and \$2,867,000 as of December 31, 2009 and 2008, respectively.

12. BUREAU OF ENGRAVING AND PRINTING

The Bureau of Engraving and Printing (BEP) is the principal supplier for currency printing and retirement services. The currency costs incurred as of December 31, 2009 and 2008, are reflected in the following table:

	2009	2008
Currency expenses charged to the Board:		
Printing	\$ 479,255,288	\$ 477,927,083
Retirement	<u>3,608,937</u>	<u>3,722,146</u>
Total currency expenses charged to the Board	<u>\$ 482,864,225</u>	<u>\$ 481,649,229</u>

13. COMMITMENTS AND CONTINGENCIES

Leases — The Board has entered into several operating leases to secure office, training and warehouse space. The Board has subleased space to other governmental agencies. The sublease agreements are annual and the revenue collected was \$467,000 and \$468,000 for 2009 and 2008, respectively.

Minimum annual payments under the operating leases having an initial or remaining non-cancelable lease term in excess of one year at December 31, 2009, are as follows:

Years Ending December 31	
2010	\$ 6,297,594
2011	6,335,714
2012	6,414,807
2013	6,608,976
After 2013	<u>42,414,511</u>
	<u>\$68,071,602</u>

Rental expenses under the operating leases were \$3,947,000 and \$2,207,000 for the years ended December 31, 2009 and 2008, respectively.

Deferred Leases — The change in deferred rent was \$1,666,000 and \$537,000 for the years ended December 31, 2009 and 2008, respectively.

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.

In 2007, the Council began a rewrite of the Home Mortgage Disclosure Act processing system, for which the Board provides data processing services. The estimated total expense to the Council of the rewrite is \$3.2 million through 2010. The estimated total Board expense to support this effort with the maintenance extension option is \$533,000.

Accrued liabilities include a federal tax liability estimated at \$494,000 for the Board and its employees. The Board expects to pay the liability during 2010.

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, individually or in the aggregate, will not have a materially adverse effect on the financial statements.

One case alleges employment discrimination under Title VII of the Civil Rights Act of 1964, as amended, and the Age Discrimination in Employment Act, and is pending in the United States District Court for the District of Columbia. The second case is an action alleging discrimination on behalf of a class of African American secretaries at the Board. The case was dismissed by the United States District Court for the District of Columbia on January 31, 2007, and the plaintiffs' motion to alter or amend judgment was denied by that court on March 2, 2009. The plaintiffs have appealed the dismissal to the United States Court of Appeals for the District of Columbia circuit. The Board has substantial defenses for both cases and intends to defend the matters vigorously. Management believes that the likelihood of an adverse judgment for both cases is small.

The estimated contingent liabilities related to business contracts were \$0 and \$69,720 as of December 31, 2009 and 2008, respectively.

14. SUBSEQUENT EVENTS

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2009. Subsequent events were evaluated through March 19, 2010, which is the date the Board issued the financial statements.

* * * * *

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

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, 2009, and have issued our report thereon dated March 19, 2010. 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 March 19, 2010, 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 |

McLean, VA
March 19, 2010