2020-FMIC-B-004
March 11, 2020

Board of Governors of the Federal Reserve System

Board of Governors of the Federal Reserve System Financial Statements as of and for the Years Ended December 31, 2019 and 2018, and Independent Auditors' Report

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

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

MEMORANDUM

DATE: March 11, 2020

TO: Board of Governors

FROM: Mark Bialek
Inspector General

SUBJECT: 2019 Audit of the Board's Financial Statements and Internal Control Over Financial Reporting

This memorandum transmits the *Independent Auditors' Report*, prepared by KPMG LLP, on the Board of Governors of the Federal Reserve System's financial statements and internal control over financial reporting and KPMG's *Report on Compliance and Other Matters*. We contracted with KPMG to audit the financial statements of the Board as of and for the years ended December 31, 2019 and 2018, and to audit the Board's internal control over financial reporting as of December 31, 2019.

The contract requires the audit of the financial statements to be performed in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States; and the auditing standards of the Public Company Accounting Oversight Board. The contract also requires the audit of internal control over financial reporting to be performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants and in accordance with the auditing standards of the Public Company Accounting Oversight Board.

We reviewed and monitored the work of KPMG to ensure compliance with the contract. KPMG is responsible for the accompanying *Independent Auditors' Report* and *Report on Compliance and Other Matters*, both dated March 10, 2020.

We do not express an opinion on the Board's financial statements or internal control over financial reporting. In addition, we do not draw conclusions on the *Report on Compliance and Other Matters*.

cc: Ricardo A. Aguilera, Chief Financial Officer
Winona Varnon, Director, Division of Management
Sharon Mowry, Chief Information Officer
Michelle A. Smith, Assistant to the Board, Chief of Staff, and Director, Office of Board Members
Mark E. Van Der Weide, General Counsel

Board of Governors of the Federal Reserve System

Financial Statements as of and for the
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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

March 10, 2020

Management's Report on Financial Statements and Internal Control over Financial Reporting

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 sheets as of December 31, 2019 and 2018, and the statements of operations and cash flows for the years 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 that 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 fair presentation.

The management of the Board is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the financial statements. The Board's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting 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 (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Board's assets; (ii) 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 directors; and (iii) 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 its financial statements.

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

The management of the Board assessed its internal control over financial reporting based upon the criteria established in the Internal Control – Integrated Framework (2013) 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.

by ______________________
Pat McClanahan
Chief Operating Officer

by ______________________
Ricardo A. Aguilera
Chief Financial Officer

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

Report of Independent Registered Public Accounting Firm

To the Board of Governors of the Federal Reserve System:

Opinions on the Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying balance sheets of Board of Governors of the Federal Reserve System (the Board) as of December 31, 2019 and 2018, the related statements of operations and cash flows for each of the years then ended, and the related notes (collectively, the financial statements). We also audited the Board's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years then ended, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Board maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019 based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Basis for Opinions

The Board's management is responsible for these financial statements, 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 Report on Financial Statements and Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Board's financial statements and an opinion on the Board's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Board in accordance with the relevant requirements relating to our audit.

We conducted our audits in accordance with the standards of the PCAOB, in accordance with auditing standards generally accepted in the United States of America, and in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process designed 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. An entity'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 entity; (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 entity are being made only in accordance with authorizations of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 10, 2020 on our tests of the Board's compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is solely 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* in considering the Board's compliance.

KPMG LLP

We have served as the Board's auditor since 2015.

Washington, District of Columbia
March 10, 2020

Board of Governors of the Federal Reserve System
Balance Sheets

		As of December 31,		
		2019		2018
Assets				
Current assets:				
Cash	$	138,288,171	$	215,087,854
Accounts receivable – net		2,865,097		2,140,266
Prepaid expenses and other assets		7,512,704		6,602,772
Total current assets		148,665,972		223,830,892
Noncurrent assets:				
Property, equipment, and software – net		438,880,709		337,453,642
Other assets		1,001,219		754,410
Total noncurrent assets		439,881,928		338,208,052
Total assets	$	588,547,900	$	562,038,944
Liabilities and cumulative results of operations				
Current liabilities:				
Accounts payable and accrued liabilities	$	35,611,343	$	35,437,008
Accrued payroll and related taxes		47,187,316		41,671,555
Accrued annual leave		45,480,622		43,141,495
Capital lease payable		51,075		74,164
Unearned revenues and other liabilities		2,735,683		3,489,739
Total current liabilities		131,066,039		123,813,961
Long-term liabilities:				
Capital lease payable		34,772		74,015
Retirement benefit obligation		147,322,696		106,702,283
Postretirement benefit obligation		17,033,607		14,582,700
Postemployment benefit obligation		6,263,937		6,129,290
Deferred rent		37,526,642		43,056,641
Other liabilities		13,783,339		4,440,119
Total long-term liabilities		221,964,993		174,985,048
Total liabilities		353,031,032		298,799,009
Cumulative results of operations:				
Fund balance		301,785,243		300,864,880
Accumulated other comprehensive loss		(66,268,375)		(37,624,945)
Total cumulative results of operations		235,516,868		263,239,935
Total liabilities and cumulative results of operations	$	588,547,900	$	562,038,944

See notes to financial statements.

Board of Governors of the Federal Reserve System
Statements of Operations

	For the years ended December 31,	
	2019	2018
Board operating revenues:		
Assessments levied on Federal Reserve Banks for Board operating expenses and capital expenditures	$ 814,000,000	$ 838,000,000
Assessments levied on Federal Reserve Banks for currency-related operating expenses and capital expenditures	41,131,566	43,874,751
Other revenues	14,849,238	16,096,191
Total operating revenues	869,980,804	897,970,942
Board operating expenses:		
Salaries	477,591,070	456,517,512
Retirement, insurance, and benefits	105,724,350	100,550,193
Other components of net periodic pension and postretirement costs	8,842,759	9,206,084
Contractual services and professional fees	66,347,556	63,602,914
Depreciation, amortization, and net gains or losses on disposals	43,569,379	42,325,685
Travel	15,563,188	15,764,961
Non-capital furniture, equipment, postage, and supplies	26,403,606	27,781,455
Data, news, and research	31,089,930	16,705,844
Utilities	8,103,826	7,713,508
Software	19,221,088	18,841,942
Rentals of space and equipment	37,274,413	36,718,324
Repairs and maintenance	9,617,548	7,161,325
Other expenses	19,711,728	16,837,846
Total operating expenses	869,060,441	819,727,593
Net income	920,363	78,243,349
Currency costs:		
Assessments levied or to be levied on Federal Reserve Banks for currency costs	795,861,583	804,843,293
Expenses for costs related to currency	795,861,583	804,843,293
Currency assessments over (under) expenses	-	-
Bureau of Consumer Financial Protection (Bureau):		
Assessments levied on the Federal Reserve Banks for the Bureau	518,600,000	337,100,000
Transfers to the Bureau	518,600,000	337,100,000
Bureau assessments over (under) transfers	-	-
Total net income	$ 920,363	$ 78,243,349

See notes to financial statements.

Board of Governors of the Federal Reserve System
Statements of Operations—*continued*

	For the years ended December 31,	
	2019	2018
Other comprehensive income (loss):		
Pension and other postretirement benefit plans:		
Amortization of prior service cost	$ 30,090	$ 73,588
Amortization of net actuarial (gain) loss	2,869,750	4,255,630
Net actuarial gain (loss) arising during the year	(31,543,270)	8,151,175
Total other comprehensive income (loss)	(28,643,430)	12,480,393
Comprehensive income (loss)	(27,723,067)	90,723,742
Cumulative results of operations – beginning of period	263,239,935	172,516,193
Cumulative results of operations – end of period	$ 235,516,868	$ 263,239,935

See notes to financial statements.

Board of Governors of the Federal Reserve System
Statements of Cash Flows

	For the years ended December 31,	
	2019	2018
Cash flows from operating activities:		
Net income	$ 920,363	$ 78,243,349
Adjustments to reconcile results of operations to net cash from (used in) operating activities:		
Depreciation and amortization	43,301,623	41,910,585
Net loss on disposal of property and equipment	267,757	415,100
Other additional noncash adjustments to results of operations	(199,447)	(14,012)
(Increase) decrease in assets:		
Accounts receivable	(724,831)	43,537
Prepaid expenses	(909,932)	732,930
Other assets	(246,810)	186,780
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	2,640,518	(507,057)
Accrued payroll and related taxes	5,515,761	3,718,508
Accrued annual leave	2,339,127	2,283,649
Unearned revenues and other liabilities	137,059	238,952
Net retirement benefit obligation	13,921,477	14,229,828
Net postretirement benefit obligation	506,414	739,140
Net postemployment benefit obligation	134,647	(925,991)
Deferred rent	(5,530,000)	(2,362,073)
Net cash from operating activities	62,073,726	138,933,225
Cash flows used in investing activities:		
Capital expenditures	(138,811,076)	(101,304,912)
Net cash used in investing activities	(138,811,076)	(101,304,912)
Cash flows used in financing activities:		
Capital lease payments	(62,333)	(69,907)
Net cash used in financing activities	(62,333)	(69,907)
Net increase (decrease) in cash	(76,799,683)	37,558,406
Cash balance – beginning of year	215,087,854	177,529,448
Cash balance – end of year	$ 138,288,171	$ 215,087,854

See notes to financial statements.

Board of Governors of the Federal Reserve System Notes to Financial Statements as of and years ended December 31, 2019 and December 31, 2018

(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 (FOMC), the twelve regional Federal Reserve Banks (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 located in Washington, D.C. The Federal Reserve System uses advisory and working committees in carrying out its varied responsibilities. Five of these committees advise the Board: the Community Advisory Council, the Community Depository Institutions Advisory Council, the Federal Advisory Council, the Insurance Policy Advisory Committee, and the Model Validation Council. The Federal Advisory Council and the Insurance Policy Advisory Committee were established by law. The Community Advisory Council, the Community Depository Institutions Advisory Council, and the Model Validation Council were created by the Board.

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 Reserve Bank and to publish each week a statement of the financial condition of each Reserve Bank and a combined 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 Reserve Banks are included in the Board's annual report to the Speaker of the House of Representatives and weekly statements are available on the Board's public website.

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. The Dodd-Frank Act requires the Board to fund the Bureau from the combined earnings of the System. 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. Accordingly, the Board's financial statements do not include financial data of the Bureau 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 Reserve Banks and the FOMC. The Board also exercises general oversight of the operations of the Reserve Banks and exercises broad responsibility in the nation's payments system. Policy regarding open market operations is established by the FOMC. However, the Board has sole authority over changes in reserve requirements, and it must approve any change in the discount rate initiated by a Reserve Bank. The Board also plays a major role in the supervision and regulation of the U.S. financial system. It has supervisory responsibilities for state-chartered banks that are members of the

System, bank holding companies, savings and loan holding companies, foreign activities of member banks, U.S. activities of foreign banks, and any nonbank financial companies the Financial Stability Oversight Council (FSOC) has determined should be supervised by the Board. 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.

Section 11 of the Federal Reserve Act (as amended) directs the Board to collect assessments, fees, or other charges equal to the total expenses the Board estimates are necessary or appropriate to carry out the supervisory and regulatory responsibilities of the Board for certain bank holding companies and savings and loan holding companies and nonbank financial companies designated for Board supervision by the FSOC. As an agent, the Board does not recognize the supervision and regulation assessments as revenue nor does the Board use the collections to fund Board expenses; the funds are transferred to the United States Treasury (Treasury).

Section 7(a)(3)(A) of the Federal Reserve Act requires that any amount of surplus funds of the Reserve Banks that exceed or would exceed $6.825 billion be transferred to the Treasury via the Board. As an intermediary transfer agent, the Board does not recognize the remittances as revenue nor does the Board use the remittances to fund Board expenses. Additional information and disclosures regarding these remittances to the Treasury can be found in the combined financial statements of the Federal Reserve 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) on an accrual basis of accounting.

Accounts Receivable and Allowance for Doubtful Accounts — Accounts receivable are recorded when amounts are billed but not yet received and 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.

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

Property, Equipment, and Software — The Board's property, 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 five 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 includes 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.

Costs incurred to acquire software are capitalized based on the purchase price. Costs incurred during the application development stage to develop internal-use software are capitalized based on the cost of direct services and materials associated with designing, coding, installing, and testing the software. Capitalized software costs are amortized on a straight-line basis over the estimated useful lives of the software applications, which generally range from two to five years. Maintenance costs and minor replacements related to software are charged to operating expense in the year incurred.

Capitalized assets, including software, buildings, leasehold improvements, furniture, and equipment, are impaired and an adjustment is recorded when events or changes in circumstances indicate that the carrying amount of assets or asset groups is not recoverable and significantly exceeds the assets' fair value.

Operating Leases and Deferred Rent — Leases for certain space contain scheduled rent increases over the term of the lease. Along with rent abatements and lease incentives, the scheduled rent increases are spread on a straight-line basis over the term of the lease 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 and are noncash transactions.

Benefit Obligations — The Board records annual amounts relating to its non-qualified retirement, postretirement, and postemployment plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, compensation increases, and health-care cost trends. The Board reviews the assumptions on an annual basis and makes modifications to the assumptions based on a variety of factors. The effect of the modifications is recorded in accumulated other comprehensive income and amortized to net periodic cost over future periods, which is presented in the accumulated other comprehensive income (loss) footnote.

Assessments to Fund the Board — The Federal Reserve Act authorizes the Board to levy an assessment on the Reserve Banks to fund its operations. The Board allocates the assessment to each Reserve Bank based on the Reserve Bank's capital and surplus balances. The Board recognizes the assessment in the period in which it is assessed.

Assessments for Currency Costs — The Board issues the nation's currency (in the form of Federal Reserve notes), and the Reserve Banks distribute currency through depository institutions. The Board incurs costs and assesses the Reserve Banks for these costs related to producing, issuing, and retiring Federal Reserve notes as well as providing other services. The assessment is allocated based on each 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. The Board recognizes the assessment in the year in which the associated costs are incurred.

Assessments to Fund the Bureau — The Board assesses the Reserve Banks for the funds transferred to the Bureau based on each Reserve Bank's capital and surplus balances. The Board recognizes the assessment in the period in which it is assessed. These assessments and transfers are reported separately from the Board's operating activities in the Board's Statements of Operations.

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. 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.

Civil Money Penalties — The Board has enforcement authority over the financial institutions it supervises and their affiliated parties, including the authority to assess civil money penalties. As directed by statute, all civil money penalties that are assessed and collected by the Board are remitted to either the Treasury or the Federal Emergency Management Agency (FEMA). As an agent, the Board does not recognize civil money penalties as revenue nor does the Board use civil money penalties to fund Board expenses. Civil money penalties whose collection is contingent upon fulfillment of certain conditions in the enforcement action are not recorded in the Board's financial records.

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

Estimates — The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates include useful lives of property, equipment, and software; allowance for doubtful accounts receivable; accounts payable; benefit obligations; and commitments and contingencies.

Tax Exempt Status — The Board, as a federal government entity, is not subject to state or local income taxes. Federal income tax on corporations does not apply to the Board.

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

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This update revises the model to assess how a lease should be classified and provides guidance for lessees, requiring lessees to present right-of-use assets and lease liabilities on the balance sheet. Subsequently, the FASB issued a number of related ASUs, including in July 2018, ASU 2018-10, *Codification Improvements to Topic 842, Leases* and ASU 2018-11, *Leases (Topic 842) Targeted Improvements*; in November 2018, ASU 2018-20, *Leases (Topic 842): Narrow-scope Improvements for Lessors*; and in March 2019, ASU 2019-01, *Leases (Topic 842): Codification Improvements.* This lease accounting guidance is effective for the Board for the year ending December 31, 2021, although early adoption is permitted. The Board is continuing to evaluate the effect of this guidance on the Board's financial statements, and is considering the information and processes necessary to adopt the guidance for the year ending December 31, 2020.

In August 2018, the FASB issued ASU 2018-14, *Retirement Benefits-Defined Benefits Plans-General* (Subtopic 715-20). This update modifies the disclosure requirements for pension and postretirement plans. The Board plans to early adopt this standard for the year ending December 31, 2020. This update is expected to require disclosure updates to the Board's financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40).* This update aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The Board early adopted this standard for the year ended December 31, 2019. This update did not have a material effect on the Board's financial statements.

(4) Property, Equipment, and Software

The following is a summary of the components of the Board's property, equipment, and software, at cost, less accumulated depreciation and amortization as of December 31, 2019 and 2018:

	As of December 31, 2019	As of December 31, 2018
Land	$ 49,464,201	$ 49,464,201
Buildings and improvements	317,286,397	313,052,243
Construction in process	200,893,169	84,820,423
Furniture and equipment	98,512,525	87,136,166
Software in use	70,562,226	66,188,603
Software in process	4,802,274	3,338,072
Vehicles	2,760,282	2,590,042
Lease – office equipment	283,300	283,300
Subtotal	744,564,374	606,873,050
Less accumulated depreciation and amortization	(305,683,665)	(269,419,408)
Property, equipment, and software – net	$ 438,880,709	$ 337,453,642

Construction in process include costs incurred in the current or prior years for long-term projects and building enhancements. The Board recorded accrued liabilities for noncash capital assets of goods received or services performed of $2,466,000 and $8,741,000 at December 31, 2019 and 2018, respectively. The Board recorded retainage liabilities for noncash capital assets of goods received or services performed of $8,452,000 and $3,235,000 for the years ended December 31, 2019 and 2018, respectively.

In June 2018, the Board acquired a building and land for $40.8 million from the General Services Administration.

(5) Leases

Capital Leases — The Board entered into capital leases for copier equipment in 2016 with lease terms that extend through 2020. Furniture and equipment includes capitalized leases of $283,000 as of 2019 and 2018. Accumulated depreciation includes $209,000 and $143,000 related to assets under capital leases as of 2019 and 2018, respectively. The depreciation expense for leased equipment is $66,000 for both 2019 and 2018.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of December 31, 2019, are as follows:

Years Ended December 31,	Amount
2020	$ 49,698
2021	29,742
2022	22,306
Total minimum lease payments	101,746
Less amount representing maintenance	(26,171)
Net minimum lease payments	75,575
Less amount representing interest	(1,559)
Present value of net minimum lease payments	74,016
Less current maturities of capital lease payments	(39,244)
Long-term capital lease obligations	$ 34,772

Operating Leases — The Board has entered into operating leases for copier equipment and to secure office, training, data center, and warehouse space. Several of the leases are with other governmental agencies and Reserve Banks. Minimum annual payments under the multiyear operating leases having an initial or remaining noncancelable lease term in excess of one year at December 31, 2019, are as follows:

Years Ended December 31,	Total
2020	$ 37,964,654
2021	38,408,239
2022	24,986,233
2023	20,976,315
2024	21,335,028
After 2024	28,728,674
	$ 172,399,143

Deferred Rent —The Board did not have any new lease incentives for the year ended December 31, 2019.

(6) 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 Reserve Banks, the Office of Employee Benefits of the Federal Reserve System (OEB), and certain employees of the Bureau. The Federal Reserve Bank of New York (FRBNY), 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 the Board.

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. FRBNY, on behalf of the System, funded $220,000,000 and $240,000,000 during each of the years ended December 31, 2019 and 2018, respectively. The Board was not assessed a contribution for 2019 or 2018.

Annually, the Society of Actuaries released new mortality tables and updated mortality projection scales. The System analyzed these new tables relative to the System's actual retiree mortality experience. Based on these analyses, the System adopted for year-end 2018 the modified MP-2018 projections scales and RP-2014 mortality tables with various adjustments to reflect the System's recent mortality experience of System retirees. The adjusted tables and scales included the Board's experience and the Board concurred with the adoption of these changes.

Benefits Equalization Plan — 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 the Internal Revenue Code. Activity for the BEP as of December 31, 2019 and 2018, is summarized in the following tables:

	2019	2018
Change in projected benefit obligation:		
Benefit obligation – beginning of year	$ 72,005,583	$ 66,654,768
Service cost	5,741,083	5,837,651
Interest cost	3,607,889	2,864,362
Plan participants' contributions	-	-
Actuarial (gain) loss	20,452,545	(3,208,061)
Gross benefits paid	(234,121)	(143,137)
Benefit obligation – end of year	$ 101,572,979	$ 72,005,583
Accumulated benefit obligation – end of year	$ 21,881,442	$ 14,288,814
Weighted-average assumptions used to determine benefit obligation as of December 31:		
Discount rate	3.80%	4.56%
Rate of compensation increase	4.25%	4.25%
Change in plan assets:		
Fair value of plan assets – beginning of year	$ -	$ -
Employer contributions	234,121	143,137
Plan participants' contributions	-	-
Gross benefits paid	(234,121)	(143,137)
Fair value of plan assets – end of year	$ -	$ -
Funded status:		
Reconciliation of funded status – end of year:		
Fair value of plan assets	$ -	$ -
Benefit obligation (current)	275,821	203,296
Benefit obligation (noncurrent)	101,297,158	71,802,287
Funded status	(101,572,979)	(72,005,583)
Amount recognized – end of year	$ (101,572,979)	$ (72,005,583)
Amounts recognized in the balance sheets consist of:		
Asset	$ -	$ -
Liability – current	(275,821)	(203,296)
Liability – noncurrent	(101,297,158)	(71,802,287)
Net amount recognized	$ (101,572,979)	$ (72,005,583)
Amounts recognized in accumulated other comprehensive income consist of:		
Net actuarial loss	$ 45,235,025	$ 26,737,493
Prior service cost	-	39,689
Net amount recognized	$ 45,235,025	$ 26,777,182

Expected cash flows:

Expected employer contributions – 2020	$	275,821
Expected benefit payments:*		
2020	$	275,821
2021	$	361,171
2022	$	459,126
2023	$	581,883
2024	$	739,762
2025–2029	$	7,550,018

* Expected benefit payments to be made by the Board.

		2019		2018
Components of net periodic benefit cost:				
Service cost	$	5,741,083	$	5,837,651
Interest cost	$	3,607,889	$	2,864,362
Expected return on plan assets		-		-
Amortization:				
Actuarial (gain) loss	$	1,955,013	$	2,728,211
Prior service cost		39,689		83,187
Net periodic benefit cost	$	11,343,674	$	11,513,411
Weighted-average assumptions used to determine net periodic benefit cost:				
Discount rate		4.56%		3.75%
Rate of compensation increase		4.25%		4.00%
Other changes in plan assets and benefit obligations recognized in other comprehensive income:				
Current year actuarial (gain) loss	$	20,452,545	$	(3,208,061)
Amortization of prior service cost	$	(39,689)	$	(83,187)
Amortization of actuarial gain (loss)		(1,955,013)		(2,728,211)
Total recognized in other comprehensive (income) loss	$	18,457,843	$	(6,019,459)
Total recognized in net periodic benefit cost and other comprehensive income	$	29,801,517	$	5,493,952

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in 2020 are shown below:

Net actuarial loss	$	3,306,551
Prior service cost		0
Total	$	3,306,551

Pension Enhancement Plan — The Board also provides another non-qualified plan for officers of the Board. The retirement benefits covered under the Pension Enhancement Plan (PEP) increase the pension benefit calculation from 1.8 percent above the Social Security integration level to 2.0 percent. Activity for the PEP as of December 31, 2019 and 2018, is summarized in the following tables:

	2019	2018
Change in projected benefit obligation:		
Benefit obligation – beginning of year	$ 35,424,567	$ 36,590,675
Service cost	1,144,954	1,194,522
Interest cost	1,688,042	1,416,533
Plan participants' contributions	-	-
Actuarial (gain) loss	9,069,098	(3,216,655)
Gross benefits paid	(642,177)	(560,508)
Benefit obligation – end of year	$ 46,684,484	$ 35,424,567
Accumulated benefit obligation – end of year	$ 41,586,473	$ 31,363,223
Weighted-average assumptions used to determine benefit obligation as of December 31:		
Discount rate	3.46%	4.35%
Rate of compensation increase	4.25%	4.25%
Change in plan assets:		
Fair value of plan assets – beginning of year	$ -	$ -
Employer contributions	642,177	560,508
Plan participants' contributions	-	-
Gross benefits paid	(642,177)	(560,508)
Fair value of plan assets – end of year	$ -	$ -
Funded status:		
Reconciliation of funded status – end of year:		
Fair value of plan assets	$ -	$ -
Benefit obligation – current	788,025	648,627
Benefit obligation – noncurrent	45,896,459	34,775,940
Funded status	(46,684,484)	(35,424,567)
Amount recognized – end of year	$ (46,684,484)	$ (35,424,567)
Amounts recognized in the balance sheets consist of:		
Asset	$ -	$ -
Liability – current	(788,025)	(648,627)
Liability – noncurrent	(45,896,459)	(34,775,940)
Net amount recognized	$ (46,684,484)	$ (35,424,567)

		2019	2018
Amounts recognized in accumulated other comprehensive income consist of:			
Net actuarial loss		$ 17,183,254	$ 8,961,358
Prior service cost		-	-
Net amount recognized		$ 17,183,254	$ 8,961,358
Expected cash flows:			
Expected employer contributions – 2020	$ 788,025		
Expected benefit payments:*			
2020	$ 788,025		
2021	$ 925,734		
2022	$ 1,079,889		
2023	$ 1,255,224		
2024	$ 1,446,054		
2025–2029	$ 10,008,681		
* Expected benefit payments to be made by the Board.			
Components of net periodic benefit cost:			
Service cost		$ 1,144,954	$ 1,194,522
Interest cost		1,688,042	1,416,533
Expected return on plan assets		-	-
Amortization:			
Actuarial loss		847,202	1,172,566
Prior service cost		-	-
Net periodic benefit cost		$ 3,680,198	$ 3,783,621
Weighted-average assumptions used to determine net periodic benefit cost:			
Discount rate		4.35%	3.69%
Rate of compensation increase		4.25%	4.00%
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Current year actuarial (gain) loss		$ 9,069,098	$ (3,216,655)
Amortization of prior service cost		-	
Amortization of actuarial gain (loss)		(847,202)	(1,172,566)
Total recognized in other comprehensive (income) loss		$ 8,221,896	$ (4,389,221)
Total recognized in net periodic benefit cost and other comprehensive income		$ 11,902,094	$ (605,600)

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in 2020 are shown below:

Net actuarial loss	$	1,372,991
Prior service cost		-
Total	$	1,372,991

The total accumulated retirement benefit obligation includes a liability for a supplemental retirement agreement and a benefits equalization plan under the System's Thrift Plan. The total obligation as of December 31, 2019 and 2018, is summarized in the following table:

	2019	2018
Retirement benefit obligation:		
Benefit obligation – BEP	$ 101,572,979	$ 72,005,583
Benefit obligation – PEP	46,684,484	35,424,567
Additional benefit obligations	129,079	124,056
Total accumulated retirement benefit obligation	$ 148,386,542	$ 107,554,206

A relatively small number of Board employees participate in the Civil Service Retirement System or the Federal Employees' Retirement System. 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 $1,953,000 and $1,112,000 in 2019 and 2018, 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 System's Thrift Plan or Roth 401(k). Board contributions to members' accounts were $30,291,000 and $28,833,000 in 2019 and 2018, respectively.

(7) Postretirement Benefits

The Board provides certain life insurance programs for its active employees and retirees. Activity as of December 31, 2019 and 2018, is summarized in the following tables:

	2019	2018
Change in benefit obligation:		
Benefit obligation – beginning of year	$ 15,163,176	$ 16,467,035
Service cost	137,994	170,564
Interest cost	646,988	595,971
Plan participants' contributions	-	-
Actuarial (gain) loss	2,021,627	(1,726,457)
Gross benefits paid	(331,409)	(343,937)
Benefit obligation – end of year	$ 17,638,376	$ 15,163,176
Weighted-average assumptions used to determine benefit obligation as of December 31 – discount rate	3.38%	4.31%
Change in plan assets:		
Fair value of plan assets – beginning of year	$ -	$ -
Employer contributions	331,409	343,937
Gross benefits paid	(331,409)	(343,937)
Fair value of plan assets – end of year	$ -	$ -
Funded status:		
Reconciliation of funded status – end of year:		
Fair value of plan assets	$ -	$ -
Benefit obligation – current	604,769	580,476
Benefit obligation – noncurrent	17,033,607	14,582,700
Funded status	(17,638,376)	(15,163,176)
Amount recognized – end of year	$ (17,638,376)	$ (15,163,176)
Amounts recognized in the balance sheets consist of:		
Asset	$ -	$ -
Liability – current	(604,769)	(580,476)
Liability – noncurrent	(17,033,607)	(14,582,700)
Net amount recognized	$ (17,638,376)	$ (15,163,176)

		2019	2018
Amounts recognized in accumulated other comprehensive income consist of:			
Net actuarial loss		$ 3,938,618	$ 1,984,526
Prior service credit		(88,519)	(98,118)
Net amount recognized		$ 3,850,099	$ 1,886,408
Expected cash flows:			
Expected employer contributions – 2020	$ 604,769		
Expected benefit payments:*			
2020	$ 604,769		
2021	$ 651,261		
2022	$ 677,826		
2023	$ 710,248		
2024	$ 736,393		
2025–2029	$ 4,093,434		
* Expected benefit payments to be made by the Board.			
Components of net periodic benefit cost:			
Service cost		$ 137,994	$ 170,564
Interest cost		646,988	595,971
Expected return on plan assets		-	-
Amortization:			
Actuarial (gain) loss		67,535	354,853
Prior service credit		(9,599)	(9,599)
Net periodic benefit cost		$ 842,918	$ 1,111,789
Weighted-average assumptions used to determine net periodic benefit cost – discount rate		4.31%	3.64%
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Current year actuarial (gain) loss		$ 2,021,627	$ (1,726,459)
Amortization of prior service credit		9,599	9,599
Amortization of actuarial gain (loss)		(67,535)	(354,853)
Total recognized in other comprehensive (income) loss		$ 1,963,691	$ (2,071,713)
Total recognized in net periodic benefit cost and other comprehensive income		$ 2,806,609	$ (959,924)

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in 2020 are shown below:

Net actuarial loss	$	329,153
Prior service credit		(9,599)
Total	$	319,554

(8) Postemployment Benefits

The Board provides certain postemployment benefits to eligible former or inactive employees and their dependents. Postemployment costs were actuarially determined using a December 31 measurement date and discount rates of 2.12 percent and 2.84 percent as of December 31, 2019 and 2018, respectively. The net periodic postemployment benefit cost (credit) recognized by the Board as of December 31, 2019 and 2018, was $875,000 and ($284,000), 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, 2019 and 2018, 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, 2018	$ (46,147,220)	$ (3,958,118)	$ (50,105,338)
Change in accumulated other comprehensive income (loss):			
Net actuarial gain (loss) arising during the year	6,424,716	1,726,459	8,151,175
Other comprehensive income before reclassifications	6,424,716	1,726,459	8,151,175
Amortization of prior service (credit) costs[a][b]	83,187	(9,599)	73,588
Amortization of net actuarial (gain) loss[a][b]	3,900,777	354,853	4,255,630
Amounts reclassified from accumulated other comprehensive income	3,983,964	345,254	4,329,218
Change in accumulated other comprehensive income (loss)	10,408,680	2,071,713	12,480,393
Balance – December 31, 2018	(35,738,540)	(1,886,405)	(37,624,945)
Change in accumulated other comprehensive income (loss):			
Net actuarial gain (loss) arising during the year[a]	(29,521,643)	(2,021,627)	(31,543,270)
Other comprehensive income before reclassifications	(29,521,643)	(2,021,627)	(31,543,270)
Amortization of prior service (credit) costs[a][b]	39,689	(9,599)	30,090
Amortization of net actuarial (gain) loss[a][b]	2,802,215	67,535	2,869,750
Amounts reclassified from accumulated other comprehensive income	2,841,904	57,936	2,899,840
Change in accumulated other comprehensive income (loss)	(26,679,739)	(1,963,691)	(28,643,430)
Balance – December 31, 2019	$ (62,418,279)	$ (3,850,096)	$ (66,268,375)

[a] These components of accumulated other comprehensive income are included in the computation of net periodic pension cost (see Notes 6 and 7 for additional details).
[b] These components of accumulated other comprehensive income are reflected in the "Retirement, insurance, and benefits" line on the Statements of Operations.

(10) Selected Transactions with the 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. The Board assesses the Reserve Banks for its operations, to include expenses related to its currency responsibilities, as well as for the funding the Board is required to provide to the Bureau. Selected activity related to the Board and Reserve Banks is summarized in the following table:

	2019	2018
For the years ended December 31:		
Assessments levied or to be levied on Reserve Banks for:		
Currency expenses	$ 836,993,149	$ 848,718,044
Board operations	814,000,000	838,000,000
Transfers of funds to the Bureau	518,600,000	337,100,000
Total assessments levied or to be levied on Reserve Banks	$2,169,593,149	$2,023,818,044

The OEB administers certain System benefit plans 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 $2,821,000 and $2,957,000 for the years ended December 31, 2019 and 2018, respectively. Activity related to the Board and the OEB is summarized in the following table:

	2019	2018
As of December 31:		
Accounts receivable due from the Office of Employee Benefits	$ 695,642	$ 839,258

(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 performs certain administrative functions for the Council. The five agencies that are represented on the Council are the Board, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Bureau.

The Board's financial statements do not include financial data for the Council. The Council expenses charged to the Board were $3,763,000 and $4,527,000 for the years ended December 31, 2019 and 2018, respectively for the assessment of operating, examiner education, and other Council program expenses. The Board expenses charged to the Council were $2,170,000 and $1,846,000 for the years ended December 31, 2019 and 2018, respectively for the reimbursement of data processing and other administrative charges performed on behalf of the Council.

(12) The Bureau of Consumer Financial Protection

Beginning July 2011, section 1017 of the Dodd-Frank Act requires the Board to fund the Bureau from the combined earnings of the System, in an amount 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). 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 Bureau transfers funds to the Board to fund their share of OIG operations. The Board recognized revenue of $10,500,000 and $12,500,000 related to OIG funding in each of the 2019 and 2018 calendar years .

(13) Currency Costs

The Bureau of Engraving and Printing is the sole supplier for currency printing and also provides currency retirement, new Bureau of Engraving and Printing facility, and meaningful access services. The Board contracts for other services associated with currency, such as shipping, education, and quality assurance. In 2019, the costs for the new facility at the Bureau of Engraving and Printing increased to $150,000,000.

The currency costs incurred by the Board for the years ended December 31, 2019 and 2018, are reflected in the following table:

	2019	2018
Costs related to Bureau of Engraving and Printing:		
Printing	$ 641,428,448	$ 799,885,504
Retirement of Federal Reserve Currency	3,614,963	3,501,362
Meaningful access program	818,172	1,452,899
New facility	150,000,000	3,528
Subtotal related to Bureau of Engraving and Printing	$ 795,861,583	$ 804,843,293
Other currency costs:		
Shipping	$ 18,667,994	$ 20,252,210
Research and development	14,141,587	11,961,481
Quality assurance services	6,424,021	9,755,730
Education services	1,897,964	1,905,330
Subtotal of other currency costs	$ 41,131,566	$ 43,874,751
Total currency costs	$ 836,993,149	$ 848,718,044

(14) 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 2020 which includes option periods.

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 material adverse effect on the financial statements.

(15) Subsequent Events

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2019. Subsequent events were evaluated through March 10, 2020, which is the date the financial statements were available to be issued.

* * * * * *

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Independent Auditors’ Report on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Governors of the Federal Reserve System:

We have audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Board of Governors of the Federal Reserve System (the Board), which comprise the balance sheet as of December 31, 2019 and the related statements of operations and cash flows for the year then ended, and the related notes to the financial statements. We have issued our report thereon dated March 10, 2020.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board’s financial statements as of and for the year ended December 31, 2019 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the Board’s compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Board’s compliance. Accordingly, this communication is not suitable for any other purpose. This report is intended solely for the information and use of the Board of Governors of the Federal Reserve System and is not intended to be and should not be used by anyone other than this specified party.

KPMG LLP

Washington, District of Columbia
March 10, 2020