

***BOARD OF GOVERNORS
OF THE FEDERAL
RESERVE SYSTEM***

*Financial Statements as of and for the Years
Ended December 31, 2008 and 2007, and
Independent Auditors' Report*

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007:	
Balance Sheets	2
Statements of Revenues and Expenses and Changes in Cumulative Results of Operations	3
Statements of Cash Flows	4
Notes to Financial Statements	5–18
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	19–20



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, 2008 and 2007, and the related statements of revenues and expenses and changes in the 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 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. 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, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective 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, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2009, on our consideration of the Board's internal control over financial reporting and our tests of its 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 internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte + Touche LLP

McLean, VA
March 23, 2009

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007

ASSETS	2008	2007
CURRENT ASSETS:		
Cash	\$ 58,255,990	\$ 44,613,728
Accounts receivable	2,975,478	2,996,318
Prepaid expenses and other assets	4,817,719	4,653,684
Total current assets	66,049,187	52,263,730
NONCURRENT ASSETS:		
Property and equipment, net (Note 4)	148,875,490	153,350,880
Other assets	2,187,395	166,119
Total noncurrent assets	151,062,885	153,516,999
TOTAL ASSETS	\$ 217,112,072	\$ 205,780,729
LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 13,312,600	\$ 20,400,282
Accrued payroll and related taxes	9,313,237	5,647,053
Accrued annual leave	22,234,106	18,429,601
Capital lease payable (current portion) (Note 4)	471,266	108,755
Unearned revenues and other liabilities	1,843,058	702,122
Total current liabilities	47,174,267	45,287,813
LONG-TERM LIABILITIES:		
Capital lease payable (non-current portion) (Note 4)	1,183,466	-
Accumulated retirement benefit obligation (Note 5)	10,866,659	2,201,675
Accumulated postretirement benefit obligation (Note 6)	8,527,800	7,972,469
Accumulated postemployment benefit obligation (Note 7)	13,900,000	8,855,613
Other long term liabilities	648,534	-
Total long-term liabilities	35,126,459	19,029,757
Total liabilities	82,300,726	64,317,570
CUMULATIVE RESULTS OF OPERATIONS:		
Working capital	19,346,186	7,084,672
Unfunded long-term liabilities	(24,020,297)	(17,542,943)
Net investment in noncurrent assets	148,759,619	153,408,244
Accumulated other comprehensive income (loss) (Note 8)	(9,274,162)	(1,486,814)
Total cumulative results of operations	134,811,346	141,463,159
TOTAL LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS	\$ 217,112,072	\$ 205,780,729

See accompanying 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, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
BOARD OPERATING REVENUES:		
Assessments levied on Federal Reserve Banks for Board operating expenses and capital expenditures	\$ 352,290,700	\$ 296,124,700
Other revenues	9,059,232	10,365,414
Total operating revenues	<u>361,349,932</u>	<u>306,490,114</u>
BOARD OPERATING EXPENSES:		
Salaries	219,752,842	197,656,442
Retirement and insurance	48,394,723	39,451,541
Contractual services and professional fees	29,901,374	36,300,185
Depreciation, amortization, and net losses on disposals	13,782,449	13,557,498
Utilities	9,977,809	8,998,496
Travel	9,414,877	8,619,615
Software	7,277,995	6,678,514
Postage and supplies	5,802,368	8,836,143
Repairs and maintenance	3,214,203	3,890,191
Printing and binding	1,825,119	1,976,765
Other expenses	10,870,638	7,861,901
Total operating expenses	<u>360,214,397</u>	<u>333,827,291</u>
RESULTS OF OPERATIONS	<u>1,135,535</u>	<u>(27,337,177)</u>
CURRENCY COSTS:		
Assessments levied on Federal Reserve Banks for currency costs	500,356,895	576,306,073
Expenses for costs related to currency (Note 9)	500,356,895	576,306,073
CURRENCY ASSESSMENTS OVER (UNDER) EXPENSES	<u>-</u>	<u>-</u>
TOTAL RESULTS OF OPERATIONS	1,135,535	(27,337,177)
CUMULATIVE RESULTS OF OPERATIONS, Beginning of period	<u>141,463,159</u>	<u>168,631,344</u>
OTHER COMPREHENSIVE INCOME (Note 8)		
Prior service credit (cost) arising during the year	(5,059,307)	-
Amortization of prior service (credit) cost	73,867	(23,831)
Amortization of net actuarial (gain) loss	131,578	113,142
Net actuarial gain (loss) arising during the year	(3,183,688)	79,681
Curtailement effects - prior service credit (cost)	250,202	-
Total Other Comprehensive Income (Loss)	<u>(7,787,348)</u>	<u>168,992</u>
CUMULATIVE RESULTS OF OPERATIONS, End of period	<u>\$ 134,811,346</u>	<u>\$ 141,463,159</u>

See accompanying notes to financial statements.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
RESULTS OF OPERATIONS	\$ 1,135,535	\$ (27,337,177)
Adjustments to reconcile results of operations to net cash provided by (used in) operating activities:		
Depreciation	13,946,960	13,433,306
Net loss (gain) on disposal of property and equipment	(164,511)	124,192
Decrease (increase) in assets:		
Accounts receivable, prepaid expenses and other assets	(2,164,471)	(929,708)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(7,087,682)	9,449,812
Accrued payroll and related taxes	3,666,184	225,387
Accrued annual leave	3,804,505	2,095,089
Unearned revenues and other liabilities	1,140,936	335,818
Accumulated retirement benefit obligation	8,664,984	847,013
Accumulated postretirement benefit obligation	555,331	(139,360)
Accumulated postemployment benefit obligation	5,044,387	2,340,312
Other long term liabilities	648,534	-
Accumulated other comprehensive income	(7,787,348)	168,992
Net cash provided by (used in) operating activities	<u>21,403,344</u>	<u>613,676</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposals	-	65,988
Capital expenditures	(9,307,059)	(15,768,979)
Net cash provided by (used in) investing activities	<u>(9,307,059)</u>	<u>(15,702,991)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital lease payments	1,545,977	(327,663)
Net cash provided by (used in) financing activities	<u>1,545,977</u>	<u>(327,663)</u>
NET INCREASE (DECREASE) IN CASH	13,642,262	(15,416,978)
CASH BALANCE, Beginning of period	44,613,728	60,030,706
CASH BALANCE, End of period	<u>\$ 58,255,990</u>	<u>\$ 44,613,728</u>

See accompanying 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, 2008 AND 2007

1. STRUCTURE

The Federal Reserve System (System) was established by Congress in 1913 and consists of the Board of Governors (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, DC based staff numbering approximately 2,000, 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 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.

Revenues — The Board assesses the Federal Reserve Banks for operating expenses and additions to property, which are based on expected cash needs.

Currency Costs — Federal Reserve Banks issue new and fit currency to the public and destroy currency already in circulation as it becomes unfit or when a new design is issued. Each year, the Board orders new currency from the U.S. Department of Treasury's Bureau of Engraving and Printing. The Board incurs expenses and assesses the Federal Reserve Banks for costs related to currency. 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 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 from the accounts and any gain or loss is recognized.

The Board complies with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, which requires that certain costs incurred in the development of internal use software be capitalized and amortized over its useful life.

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 Statement of Financial Accounting Standards (SFAS) No.116, *Accounting for Contributions Received and Contributions Made*, 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.

Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. PROPERTY AND EQUIPMENT

The following is a summary of the components of the Board's property and equipment, at cost, net of accumulated depreciation and amortization.

	As of December 31, 2008	As of December 31, 2007
Land	\$ 18,640,314	\$ 18,640,314
Buildings and improvements	150,602,767	149,968,504
Furniture and equipment	56,104,247	55,625,014
Software in use	14,514,315	14,745,157
Software in process	3,832,516	2,064,438
Construction in process	3,818,295	1,550,565
	<u>247,512,454</u>	<u>242,593,992</u>
Less accumulated depreciation and amortization	<u>(98,636,964)</u>	<u>(89,243,112)</u>
Property and equipment, net	<u>\$ 148,875,490</u>	<u>\$ 153,350,880</u>

Construction in process includes costs incurred in 2008 and 2007 for long-term security projects and building enhancements.

In May 2008, the Board received an asset contribution from a federal government agency with an estimated fair market value (FMV) of \$80,000. The Board recognized the FMV as revenue and capitalized the asset in June 2008.

The Board entered into capital leases for printing equipment during 2003, which terminated in May 2008. The Board subsequently entered into new capital leases in 2008. Under the new commitments, the capital lease term extends through 2012. Furniture and equipment includes \$1,923,000 and \$1,230,000 in 2008 and 2007, respectively, for capitalized leases. Accumulated depreciation includes \$280,000 and \$1,123,000 for capitalized leases as of 2008 and 2007, respectively. The Board paid interest related to these capital leases in the amount of \$26,000 and \$31,000 as of December 31, 2008 and 2007, 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, 2008, are as follows:

	Year Ending December 31	Amount
	2009	\$ 868,164
	2010	868,164
	2011	868,164
	2012	<u>362,597</u>
Total minimum lease payments		2,967,089
Less: Amount representing maintenance		<u>(1,247,549)</u>
Net minimum lease payments		1,719,540
Less: Amount representing interest		<u>(64,808)</u>
Present value of net minimum lease payments		1,654,732
Less: Current maturities of capital lease payments		<u>(471,266)</u>
Long-term capital lease obligations		<u><u>\$ 1,183,466</u></u>

5. ACCUMULATED RETIREMENT BENEFITS

Substantially all of the Board's employees participate in the Retirement Plan for Employees of the Federal Reserve System (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 asset 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. Based on actuarial calculations, it was determined that employer funding contributions were not required for the years 2008 and 2007, and the Board was not assessed a contribution for these years. In late 2008, the Committee on Plan Administration reviewed the System Plan's funding status and recommended additional contributions during 2009. The System began making contributions to the Plan of \$20 million per month starting in January 2009; these contributions will continue to be made each month and may be adjusted upon completion of the 2009 actuarial valuation.

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 for 2008 and 2007 is summarized in the following tables:

	As of December 31, 2008	As of December 31, 2007
<u>Change in Projected Benefit Obligation</u>		
Benefit obligation, beginning of year	\$ 2,201,675	\$ 1,354,662
Service cost	589,094	329,282
Interest cost	213,714	87,837
Plan participants' contributions	-	-
Actuarial (gain)/loss	1,137,486	453,526
Gross benefits paid	(35,016)	(23,632)
Plan amendments	484,421	-
Benefit obligation, end of year	<u>\$ 4,591,374</u>	<u>\$ 2,201,675</u>
Accumulated benefit obligation, end of year	\$ 1,267,005	\$ 685,170
<u>Weighted-average assumptions used to determine benefit obligation as of December 31:</u>		
Discount rate	6.00%	6.25%
Rate of compensation increase	5.00%	5.00%
<u>Change in Plan Assets</u>		
Fair value of plan assets, beginning of year	\$ -	\$ -
Employer contributions	35,016	23,632
Plan participants' contributions	-	-
Gross benefits paid	(35,016)	23,632
Fair value of plan assets, end of year	<u>\$ -</u>	<u>\$ -</u>
<u>Funded Status</u>		
<u>Reconciliation of funded status at end of year:</u>		
Fair value of plan assets	\$ -	\$ -
Benefit obligations	<u>4,591,374</u>	<u>2,201,675</u>
Funded status	<u>(4,591,374)</u>	<u>(2,201,675)</u>
Amount recognized, end of year	<u>\$ (4,591,374)</u>	<u>\$ (2,201,675)</u>
<u>Amounts recognized in the statements of financial position consist of:</u>		
Asset	\$ -	\$ -
Liability	<u>(4,591,374)</u>	<u>(2,201,675)</u>
Net amount recognized	<u>\$ (4,591,374)</u>	<u>\$ (2,201,675)</u>

	As of December 31, 2008	As of December 31, 2007
<u>Amounts recognized in accumulated other comprehensive income consist of:</u>		
Net actuarial loss/(gain)	\$ 2,031,269	\$ 1,006,257
Prior service cost/(credit)	256,919	(233,404)
Deferred curtailment (gain)/loss	-	-
	<u>\$ 2,288,188</u>	<u>\$ 772,853</u>
<u>Expected Cash Flows</u>		
<u>Expected employer contributions:</u>		
2009	\$ 117,485	
<u>Expected benefit payments:</u>		
2009	117,485	
2010	139,030	
2011	158,747	
2012	176,977	
2013	193,778	
2014-2018	\$ 1,277,706	
<u>Components of net periodic benefit cost:</u>		
Service cost	\$ 589,094	\$ 329,282
Interest cost	213,714	87,837
Expected return on plan assets	-	-
Amortization:		
Actuarial (gain)/loss	112,474	27,655
Prior service (credit)/cost	(5,902)	(14,013)
Net periodic benefit cost (credit)	<u>\$ 909,380</u>	<u>\$ 430,761</u>
<u>Weighted-average assumptions used to determine net periodic benefit cost:</u>		
Discount rate	6.25 % *	6.00 %
Rate of compensation increase	5.00 %	4.50 %

*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.

Other Changes in Plan Assets and Benefit Obligations

Recognized in Other Comprehensive Income **

Current year prior service (credit)/cost	\$ 484,421	\$ -
Current year actuarial (gain)/loss	1,137,486	453,526
Amortization of prior service credit/(cost)	5,902	14,013
Amortization of actuarial gain/(loss)	(112,474)	(27,655)
Total recognized in other comprehensive income	<u>\$ 1,515,335</u>	<u>\$ 439,884</u>
Total recognized in net periodic benefit cost and other comprehensive income	\$ 2,424,715	\$ 870,645

**For 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 2009 are shown below:

Net actuarial (gain)/loss	\$ 159,893
Prior service (credit)/cost	35,257
Total	<u><u>\$ 195,150</u></u>

On October 30, 2008, the Board approved a non-qualified plan for Officers of the Board. The retirement benefits covered under the Supplemental Employee Retirement Plan (BSERP) increases the pension benefit calculation from 1.8 percent above the Social Security integration level to 2.0 percent. Activity for the BSERP for 2008 is summarized in the following tables:

	As of December 31, 2008
<u>Change in Projected Benefit Obligation:</u>	
Benefit obligation, beginning of year	\$ -
Service cost	37,190
Interest cost	56,010
Plan participants' contributions	-
Actuarial (gain)/loss	1,607,199
Gross benefits paid	-
Plan amendments	4,574,886
Benefit obligation, end of year	<u><u>\$ 6,275,285</u></u>
Accumulated benefit obligation, end of year	\$ 4,530,540
<u>Weighted-average assumptions used to determine benefit obligation as of December 31:</u>	
Discount rate	6.00 %
Rate of compensation increase	5.00 %
<u>Change in Plan Assets</u>	
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>
<u>Funded Status</u>	
<u>Reconciliation of funded status at end of year:</u>	
Fair value of plan assets	\$ -
Benefit obligations	6,275,285
Funded status	<u>(6,275,285)</u>
Amount recognized, end of year	<u><u>\$ (6,275,285)</u></u>

	As of December 31, 2008
<u>Amounts recognized in the statements of financial position consist of:</u>	
Asset	\$ -
Liability	(6,275,285)
Net amount recognized	<u>\$ (6,275,285)</u>
<u>Amounts recognized in accumulated other comprehensive income consist of:</u>	
Net actuarial loss/(gain)	\$ 1,607,199
Prior service cost/(credit)	4,482,687
Deferred curtailment (gain)/loss	-
	<u>\$ 6,089,886</u>
<u>Expected Cash Flows</u>	
<u>Expected employer contributions:</u>	
2009	\$ -
<u>Expected benefit payments:</u>	
2009	\$ -
2010	70,754
2011	103,843
2012	140,233
2013	180,946
2014–2018	1,655,909
<u>Components of net periodic benefit cost:</u>	
Service cost	\$ 37,190
Interest cost	56,010
Expected return on plan assets	-
Amortization:	
Actuarial (gain)/loss	-
Prior service (credit)/cost	92,199
Net periodic benefit cost (credit)	<u>\$ 185,399</u>
<u>Weighted-average assumptions used to determine net periodic benefit cost:</u>	
Discount rate	7.75 %
Rate of compensation increase	5.00 %
<u>Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income</u>	
Current year prior service (credit)/cost	\$ 4,574,886
Current year actuarial (gain)/loss	1,607,199
Amortization of prior service credit/(cost)	(92,199)
Amortization of actuarial gain/(loss)	-
Total recognized in other comprehensive income	<u>\$ 6,089,886</u>

**As of
December 31,
2008**

Total recognized in net periodic benefit cost and other comprehensive income \$ 6,275,285
For Board Supplemental Retirement Plan, 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 2009 are shown below:

Net actuarial (gain)/loss	\$ 118,461
Prior service (credit)/cost	553,191
Total	\$ 671,652

The total accumulated retirement benefit obligation for both the Benefits Equalization Plan (BEP) and Supplemental Retirement Plan (BSERP) are as follows:

	As of December 31, 2008	As of December 31, 2007
<u>Accumulated retirement benefit obligation</u>		
Benefit obligation, BEP	\$ 4,591,374	\$ 2,201,675
Benefit obligation, BSERP	6,275,285	-
Total accumulated retirement benefit obligation	\$ 10,866,659	\$ 2,201,675

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 \$305,000 and \$316,000 in 2008 and 2007, 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 are based upon a fixed percentage of each member's basic contribution and were \$11,815,000 and \$9,542,000 in 2008 and 2007, respectively.

6. ACCUMULATED POSTRETIREMENT BENEFITS

The Board provides certain life insurance programs for its active employees and retirees. Activity for 2008 and 2007 is summarized in the following tables:

	As of December 31, 2008	As of December 31, 2007
<u>Change in Projected Benefit Obligation:</u>		
Benefit obligation, beginning of year	\$ 7,972,469	\$ 8,111,829
Service cost	176,450	198,791
Interest cost	505,691	479,903
Plan participants' contributions	-	-
Actuarial (gain)/loss	439,003	(533,208)
Gross benefits paid	(315,611)	(284,846)
Plan amendments	-	-
Curtailments	(250,202)	-
Benefit obligation, end of year	<u>\$ 8,527,800</u>	<u>\$ 7,972,469</u>
<u>Weighted-average assumptions used to determine benefit obligation as of December 31:</u>		
Discount rate	6.00 %	6.25 %
<u>Change in Plan Assets</u>		
Fair value of plan assets, beginning of year	\$ -	\$ -
Employer contributions	315,611	284,846
Plan participants' contributions	-	-
Gross benefits paid	(315,611)	(284,846)
Fair value of plan assets, end of year	<u>\$ -</u>	<u>\$ -</u>
<u>Funded Status</u>		
<u>Reconciliation of funded status at end of year:</u>		
Fair value of plan assets	\$ -	\$ -
Benefit obligations	8,527,800	7,972,469
Funded status	<u>(8,527,800)</u>	<u>(7,972,469)</u>
Amount recognized, end of year	<u>\$ (8,527,800)</u>	<u>\$ (7,972,469)</u>
<u>Amounts recognized in the statements of financial position consist of:</u>		
Asset	\$ -	\$ -
Liability	<u>(8,527,800)</u>	<u>(7,972,469)</u>
Net amount recognized	<u>\$ (8,527,800)</u>	<u>\$ (7,972,469)</u>
<u>Amounts recognized in accumulated other comprehensive income consist of:</u>		
Net actuarial loss/(gain)	\$ 1,223,601	\$ 803,702
Prior service cost/(credit)	(327,513)	(89,741)
Deferred curtailment (gain)/loss	-	-
	<u>\$ 896,088</u>	<u>\$ 713,961</u>

	As of December 31, 2008	As of December 31, 2007
<u>Expected Cash Flows</u>		
<u>Expected employer contributions:</u>		
2009	\$ 321,938	
<u>Expected benefit payments:</u>		
2009	\$ 321,938	
2010	349,910	
2011	368,338	
2012	385,498	
2013	412,373	
2014-2018	2,452,672	
<u>Components of net periodic benefit cost:</u>		
Service cost	\$ 176,450	\$ 198,791
Interest cost	505,691	479,902
Expected return on plan assets	-	-
Amortization:		
Actuarial (gain)/loss	19,104	85,487
Prior service (credit)/cost	(12,430)	(9,818)
Net periodic benefit cost (credit)	<u>\$ 688,815</u>	<u>\$ 754,362</u>

Weighted-average assumptions used to determine net periodic benefit cost:

Discount rate	6.25 % *	5.75 %
---------------	----------	--------

*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.

Other Changes in Plan Assets and Benefit Obligations

Recognized in Other Comprehensive Income

Current year prior service (credit)/cost	\$ -	\$ -
Current year actuarial (gain)/loss	439,003	(533,209)
Amortization of prior service credit/(cost)	12,430	9,818
Amortization of actuarial gain/(loss)	(19,104)	(85,487)
Curtailment effects - prior service (credit)/cost	(250,202)	-
Total recognized in other comprehensive income	<u>\$ 182,127</u>	<u>\$ (608,878)</u>

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in 2009 are shown below:

Net actuarial (gain)/loss	\$ 48,178
Prior service (credit)/cost	(25,490)
Total	<u>\$ 22,688</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 2.50 percent and 5.75 percent as of December 31, 2008 and December 31, 2007, respectively. The accrued postemployment benefit costs recognized by the Board as of December 31, 2008 and December 31, 2007, were \$5,974,000 and \$3,055,000, respectively.

8. ACCUMULATED OTHER COMPREHENSIVE INCOME

Following is a reconciliation of beginning and ending balances of accumulated other comprehensive income.

	Amount Related To Defined Benefit Retirement Plans	Amount Related To Postretirement Benefits Other than Pensions	Total Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2007	\$ 332,969	\$ 1,322,837	\$ (1,655,806)
Change in funded status of benefit plans:			
Prior service (credit) cost arising during the year	-	-	-
Amortization of prior service credit (costs)	14,013	9,818	(23,831)
Amortization of net actuarial gain (loss)	(27,655)	(85,487)	113,142
Net actuarial (gain) loss arising during the year	-	-	-
Curtailement effects - prior service (credit) cost	453,526	(533,207)	79,681
Change in funded status of benefit plans - other comprehensive income (loss)	439,884	(608,876)	168,992
Balance at December 31, 2007	<u>\$ 772,853</u>	<u>\$ 713,961</u>	<u>\$ (1,486,814)</u>
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)
Curtailement effects - prior service (credit) cost	-	(250,202)	250,202
Change in funded status of benefit plans - other comprehensive income (loss)	7,605,221	182,127	(7,787,348)
Balance at December 31, 2008	<u>\$ 8,378,074</u>	<u>\$ 896,088</u>	<u>\$ (9,274,162)</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 is summarized in the following table:

	As of December 31, 2008	As of December 31, 2007
Reserve Bank expenses charged to the Board		
Data processing and communication	\$ 2,368,144	\$ 2,064,110
Contingency site	1,265,618	1,152,166
Total Reserve Bank expenses charged to the Board	<u>\$ 3,633,762</u>	<u>\$ 3,216,276</u>
Board expenses charged to the Reserve Banks		
Assessments for currency costs		
Printing	\$ 477,927,083	\$ 555,100,837
Shipping	14,984,564	13,710,396
Retirement	3,722,146	3,995,424
Research and Development	3,723,101	3,499,416
Assessments for operating expenses of the Board	352,290,700	296,124,700
Data processing	601,957	704,840
Total Board expenses charged to the Reserve Banks	<u>\$ 853,249,551</u>	<u>\$ 873,135,613</u>
Accounts receivable due from the Reserve Banks	\$ 1,016,688	\$ 1,270,582
Accounts payable due to the Reserve Banks	295,848	10

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 will reimburse the Board for the cost of the audit services. The Board accrued liabilities of \$313,000 in audit services and recorded receivables of \$313,000 from the entities as of December 31, 2008.

10. FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

The Board is one of the five member agencies of the Council, and currently performs certain management functions for the Council. The five agencies which 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 for 2008 and 2007 is summarized in the following table:

	As of December 31, 2008	As of December 31, 2007
Council expenses charged to the Board		
Assessments for operating expenses	\$ 164,889	\$ 108,163
Central Data Repository	1,352,390	1,167,449
Uniform Bank Performance Report	185,833	192,026
Total Council expenses charged to the Board	<u>\$ 1,703,112</u>	<u>\$ 1,467,638</u>
Board expenses charged to the Council		
Data processing related services	\$ 4,683,363	\$ 4,457,647
Administrative services	190,400	190,800
Total Board expenses charged to the Council	<u>\$ 4,873,763</u>	<u>\$ 4,648,447</u>
Accounts receivable due from the Council	\$ 650,672	\$ 384,142
Accounts payable due to the Council	373,466	64,087

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 \$2,867,208 and \$2,866,676 as of December 31, 2008 and December 31, 2007, 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 and outstanding balances owed to BEP as of December 31, 2008 and 2007, are reflected in the following table:

	As of December 31, 2008	As of December 31, 2007
Currency expenses charged to the Board		
Printing	\$ 477,927,083	\$ 555,100,837
Retirement	3,722,146	3,995,424
Total currency expenses charged to the Board	<u>\$ 481,649,229</u>	<u>\$ 559,096,261</u>

13. COMMITMENTS AND CONTINGENCIES

Leases — The Board has entered into several operating leases to secure office, training and warehouse space. Minimum annual payments under the operating leases having an initial or remaining non-cancelable lease term in excess of one year at December 31, 2008, are as follows:

2009	\$ 2,268,850
2010	6,297,594
2011	6,335,714
2012	6,414,807
After 2012	49,023,488
	<u>\$ 70,340,453</u>

Rental expenses under the operating leases were \$2,207,000 and \$539,000 as of December 31, 2008 and 2007, respectively.

Deferred Leases — The amount of additional deferred rent is \$537,000 and \$318,000 for the years ended December 31, 2008 and 2007, 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 Federal Financial Institutions Examination Council (the Council) to fund a portion of 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.

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 Court of Appeals for the District of Columbia Circuit. A second action alleges discrimination on behalf of a class of African American secretaries at the Board and 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 until May 1, 2009, to appeal the matter to the United States Court of Appeals. 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 \$69,720 and \$0 as of December 31, 2008 and December 31, 2007, respectively.



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

To The Board of Governors of the Federal Reserve System:

We have audited the financial statements of The Board of Governors of the Federal Reserve System (the "Board") as of and for the year ended December 31, 2008, and have issued our report thereon dated March 23, 2009. We conducted our audit in accordance with 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We have communicated to management, in a separate letter dated March 23, 2009, other matters that we identified during our audit.

Compliance

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 grants, 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 23, 2009