Board of Governors of the Federal Reserve System

Financial Statements as of and for the
Years Ended December 31, 2012 and 2011,
and Independent Auditors' Reports

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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

March 5, 2013

MANAGEMENT'S ASSERTION

To the Committee on Board Affairs:

The management of the Board of Governors of the Federal Reserve System ("the Board") is responsible for the preparation and fair presentation of the balance sheet as of December 31, 2012, and for the related statement of operations and statement of cash flows for the year then ended (the "Financial Statements"). The Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include some amounts which are based on management judgments and estimates. To our knowledge, the Financial Statements are, in all material respects, fairly presented in conformity with generally accepted accounting principles and include all disclosures necessary for such presentation.

The Board's management is also responsible for establishing and maintaining effective internal control over financial reporting as it relates to the Financial Statements. Such internal control is designed to provide reasonable assurance to management and to the Committee on Board Affairs regarding the preparation of the Financial Statements in accordance with accounting principles generally accepted in the United States of America. The Board's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Board; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of Financial Statements in accordance with generally accepted accounting principles, and that the Board's receipts and expenditures are being made only in accordance with authorizations by its management; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Board's assets that could have a material effect on the Financial Statements.

Internal control, no matter how well designed and operated, can only provide reasonable assurance of achieving the Board's control objectives with respect to the preparation of reliable Financial Statements. The likelihood of achievement of such objectives is affected by limitations inherent to internal control, including the possibility of human error. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that specific controls may become inadequate because of changes in conditions or that the degree of compliance with policies or procedures may deteriorate.

The Board's management assessed its internal control over financial reporting with regards to the Financial Statements based upon the criteria established in the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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

by
Donald V. Hammond
Chief Operating Officer

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of the Federal Reserve System:

We have audited the accompanying financial statements of the Board of Governors of the Federal Reserve System (the "Board"), which are comprised of the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, and cash flows for the years then ended, and the related notes to the financial statements. We also have audited the Board's internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management's Responsibility

The Board's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The Board's management is also responsible for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management's Assertion.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on the Board's internal control over financial reporting based on our audits. We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States), and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and we conducted our audit of internal control over financial reporting in accordance with 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 (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of the financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of the financial statements also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. An audit of internal control over financial reporting involves obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Definition of Internal Control Over Financial Reporting

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

Inherent Limitations of Internal Control Over Financial Reporting

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

Opinions

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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the Board maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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

In accordance with *Government Auditing Standards,* we have also issued a report dated March 5, 2013, on our tests of the Board’s compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Deloitte & Touche LLP

March 5, 2013

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BALANCE SHEETS
AS OF DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash	$ 53,965,151	$ 73,592,126
Accounts receivable — net	2,437,241	5,433,087
Prepaid expenses and other assets	4,518,080	3,338,770
Total current assets	60,920,472	82,363,983
NONCURRENT ASSETS:		
Property, equipment, and software — net	186,703,851	181,903,601
Other assets	1,081,446	476,795
Total noncurrent assets	187,785,297	182,380,396
TOTAL	$ 248,705,769	$ 264,744,379
LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 16,181,003	$ 25,686,787
Accrued payroll and related taxes	20,907,437	18,616,534
Accrued annual leave	29,218,663	27,281,750
Capital lease payable	456,896	237,479
Unearned revenues and other liabilities	617,787	872,868
Total current liabilities	67,381,786	72,695,418
LONG-TERM LIABILITIES:		
Capital lease payable	1,069,116	-
Retirement benefit obligation	33,740,310	27,485,712
Postretirement benefit obligation	13,249,648	11,799,079
Postemployment benefit obligation	10,695,165	11,145,144
Other long-term liabilities	21,261,795	20,261,325
Total long-term liabilities	80,016,034	70,691,260
Total liabilities	147,397,820	143,386,678
CUMULATIVE RESULTS OF OPERATIONS:		
Fund balance	119,140,439	138,451,243
Accumulated other comprehensive income (loss)	(17,832,490)	(17,093,542)
Total cumulative results of operations	101,307,949	121,357,701
TOTAL	$ 248,705,769	$ 264,744,379

See notes to financial statements.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	**2011**
BOARD OPERATING REVENUES:		
Assessments levied on Federal Reserve Banks for Board operating expenses and capital expenditures	$ 490,000,000	$ 472,300,000
Other revenues	9,793,604	6,555,903
Total operating revenues	499,793,604	478,855,903
BOARD OPERATING EXPENSES:		
Salaries	299,889,043	274,866,723
Retirement, insurance, and benefits	70,232,938	61,516,094
Contractual services and professional fees	50,873,548	37,486,707
Depreciation, amortization, and net gains or losses on disposals	21,969,729	19,496,451
Travel	15,068,161	14,583,555
Postage, supplies, and non-capital furniture and equipment	11,256,753	10,760,230
Utilities	9,016,693	8,736,997
Software	10,967,296	9,399,273
Rentals of space	14,120,215	6,401,350
Repairs and maintenance	5,696,326	4,774,395
Printing and binding	2,126,056	2,345,881
Other expenses	7,887,650	8,510,962
Total operating expenses	519,104,408	458,878,618
NET INCOME (LOSS)	(19,310,804)	19,977,285
CURRENCY COSTS:		
Assessments levied or to be levied on Federal Reserve Banks for currency costs	721,074,064	650,010,597
Expenses for costs related to currency	721,074,064	650,010,597
Currency assessments over (under) expenses	-	-
BUREAU OF CONSUMER FINANCIAL PROTECTION (BUREAU):		
Assessments levied on the Federal Reserve Banks for the Bureau	385,200,000	241,711,564
Transfers to the Bureau	385,200,000	241,711,564
Bureau assessments over (under) transfers	-	-
OFFICE OF FINANCIAL RESEARCH (OFFICE):		
Assessments levied on the Federal Reserve Banks for the Office	2,078,298	40,000,000
Transfers to the Office	2,078,298	40,000,000
Office assessments over (under) transfers	-	-
TOTAL NET INCOME (LOSS)	(19,310,804)	19,977,285

See notes to financial statements.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF OPERATIONS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
OTHER COMPREHENSIVE INCOME:		
Amortization of prior service (credit) cost	$ 584,890	507,786
Amortization of net actuarial (gain) loss	1,659,956	653,874
Net actuarial gain (loss) arising during the year	(2,983,794)	(3,627,680)
Total other comprehensive income (loss)	(738,948)	(2,466,020)
COMPREHENSIVE INCOME (LOSS)	(20,049,752)	17,511,265
CUMULATIVE RESULTS OF OPERATIONS — Beginning of year	121,357,701	103,846,436
CUMULATIVE RESULTS OF OPERATIONS — End of year	$ 101,307,949	$ 121,357,701

See notes to financial statements.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (19,310,804)	$ 19,977,285
Adjustments to reconcile results of operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	21,901,984	19,015,100
Net loss (gain) on disposal of property and equipment	67,745	481,351
Other additional non-cash adjustments to results of operations	492,739	351,867
(Increase) decrease in assets:		
Accounts receivable, prepaid expenses and other assets	1,211,886	(2,780,003)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(6,317,712)	5,340,020
Accrued payroll and related taxes	2,290,903	(3,277,502)
Accrued annual leave	1,936,913	944,560
Unearned revenues and other liabilities	(255,081)	316,022
Net retirement benefit obligation	6,363,414	4,128,953
Net postretirement benefit obligation	602,805	490,927
Net postemployment benefit obligation	(449,979)	(2,668,110)
Other long-term liabilities	437,509	298,191
Net cash provided by (used in) operating activities	8,972,322	42,618,661
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(28,057,137)	(23,585,868)
Net cash provided by (used in) investing activities	(28,057,137)	(23,585,868)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital lease payments	(542,160)	(583,299)
Net cash provided by (used in) financing activities	(542,160)	(583,299)
NET INCREASE (DECREASE) IN CASH	(19,626,975)	18,449,494
CASH BALANCE — Beginning of year	73,592,126	55,142,632
CASH BALANCE — End of year	$ 53,965,151	$ 73,592,126

See notes to financial statements.

1. STRUCTURE

The Federal Reserve System (the System) was established by Congress in 1913 and consists of the Board of Governors (the Board), the Federal Open Market Committee, the twelve regional Federal Reserve Banks (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, DC.

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 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 in July 2011. The Dodd-Frank Act requires the Board to fund the Bureau from the combined earnings of the System. The Dodd-Frank Act also created the Financial Stability Oversight Council (FSOC) of which the Chairman of the Board is a member, as well as the Office of Financial Research (Office) within the U.S. Department of Treasury to provide support to the FSOC and the member agencies. The Dodd-Frank Act required that the Board provide funding for the FSOC and the Office until July 2012. Section 1017 of the Dodd-Frank Act provides that the financial statements of the Bureau are not to be consolidated with those of the Board or the System; the Board has also determined that neither the FSOC nor the Office should be consolidated in the Board's financial statements. Accordingly, the Board's financial statements do not include financial data of the Bureau, the FSOC, or the Office other than the funding that the Board is required by the Dodd-Frank Act to provide.

2. OPERATIONS AND SERVICES

The Board's responsibilities require thorough analysis of domestic and international financial and economic developments. The Board carries out those responsibilities in conjunction with the Reserve Banks and the Federal Open Market Committee. The Board also supervises 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 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 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 System, bank holding companies, savings and loan holding companies, foreign activities of member banks, U.S. activities of foreign banks, and any systemically important nonbank financial company that are designated by the FSOC. Although the Dodd-Frank Act gave the Bureau general rule-writing responsibility for Federal consumer financial laws, the Board retains rule-writing responsibility under the Community Reinvestment Act and other specific statutory provisions. The Board also enforces the requirements of Federal consumer financial laws for state member banks with assets of $10 billion or less. In addition, the Board enforces certain other consumer laws at all state member banks, regardless of size.

Section 318(c) of the Dodd-Frank Act requires that the Board shall collect a total amount of assessments, fees, or other charges, from certain companies (large bank holding companies and savings and loan holding companies with total consolidated assets of $50 billion or more and systemically important nonbank financial companies designated by the FSOC) that is equal to the total expenses the Board estimates are necessary or appropriate to carry out the supervisory and regulatory responsibilities of the Board with respect to such companies. As of December 31, 2012, the Board has not issued rulemaking regarding this new responsibility, and currently does not anticipate finalizing any such rulemaking until later in 2013. As such, sufficient information is not available to determine a reasonable estimate of the fees that it may eventually collect and transfer to the U.S. Treasury.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Revenues — The Federal Reserve Act authorizes the Board to levy an assessment on the Reserve Banks to fund its operations. The Board allocates the assessment to each Reserve Bank based on the Reserve Bank's capital and surplus balances.

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

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 Department of Treasury (Treasury) or Federal Emergency Management Agency (FEMA). As a collecting entity, the Board does not recognize civil money penalties as revenue nor does the Board use the civil money penalty 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. Checks for civil money penalties made payable to the National Flood Insurance Program are forwarded to FEMA and are not recorded in the Board's financial records.

Currency Costs — The Board issues the nation's currency (in the form of Federal Reserve notes), and the Reserve Banks distribute currency and coin through depository institutions. The Board incurs expenses and assesses the Reserve Banks for the expenses related to producing, issuing, and retiring Federal Reserve notes as well as providing educational 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. These expenses and assessments are reported separately from the Board's operating activities in the Board's Statements of Operations.

Allowance for Doubtful Accounts — Accounts receivable are shown net of the allowance for doubtful accounts. Accounts receivable considered uncollectible are charged against the allowance account in the year they are deemed uncollectible. The allowance for doubtful accounts is adjusted monthly, based upon a review of outstanding receivables. The allowance for doubtful accounts is $30,000 and $112,000 for 2012 and 2011, respectively.

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 ten years for software. Upon the sale or other disposition of a depreciable asset, the cost and related accumulated depreciation or amortization are removed and any gain or loss is recognized. Construction in process 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.

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.

Deferred Rent —Leases for certain space contain scheduled rent increases over the term of the lease. Rent abatements, lease incentives, and scheduled rent increases must be considered in determining the annual rent expense to be recognized. The deferred rent represents the difference between the actual lease payments and the rent expense recognized. Lease incentives impact deferred rent, and are non-cash transactions, and discussed in the leases footnote.

Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

Recently Issued Accounting Standards — In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, *Comprehensive Income* (Topic 220): *Presentation of Comprehensive Income*, which requires a reporting entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. The update is intended to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items by presenting the components reported in other comprehensive income. The Board has adopted the update in this ASU effective for the year ended December 31, 2012, and the required presentation is reflected in the Board's financial statements.

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income* (Topic 220): *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. This update indefinitely defers the requirements of ASU 2011-05 related to presentation of reclassification adjustments from accumulated other comprehensive income. When effective, this update will affect the classification of these adjustments in the Statements of Operations.

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income* (Topic 220): *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This update requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective net income line items. This update is effective for the Board for the year ending December 31, 2013 and will be reflected in the Board's 2013 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, net of accumulated depreciation and amortization, as of December 31, 2012 and 2011:

	2012	2011
Land	$ 18,640,314	$ 18,640,314
Buildings and improvements	205,006,985	195,869,546
Construction in process	14,362,523	13,952,693
Furniture and equipment	74,519,266	66,604,104
Software in use	29,147,933	27,091,292
Software in process	2,422,381	1,384,526
Vehicles	960,745	521,419
Other intangible asset	496,675	496,675
Subtotal	345,556,822	324,560,569
Less accumulated depreciation and amortization	(158,852,971)	(142,656,968)
Property, equipment, and software — net	$ 186,703,851	$181,903,601

5. LEASES

Capital Leases —The Board entered into capital leases for copier equipment in 2008 and 2009 that terminated in March 2012. The Board subsequently entered into new capital leases in 2012. Under the new commitments, the capital lease term extends through 2016. Furniture and equipment includes capitalized leases of $1,853,000 and $2,086,000 in 2012 and 2011, respectively. Accumulated depreciation includes $337,000 and $1,852,000 related to assets under capital leases as of 2012 and 2011, respectively. The depreciation expense for the leased equipment is $471,000 and $533,000 for 2012 and 2011, 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, 2012, are as follows:

Years Ended December 31,	Amount
2013	$ 711,659
2014	711,659
2015	711,659
2016	192,799
Total minimum lease payments	2,327,776
Less amount representing maintenance	(754,555)
Net minimum lease payments	1,573,221
Less amount representing interest	(47,209)
Present value of net minimum lease payments	1,526,012
Less current maturities of capital lease payments	(456,896)
Long-term capital lease obligations	$ 1,069,116

Operating Leases — The Board has entered into several operating leases to secure office, training and warehouse space. Minimum annual payments under the multi-year operating leases having an initial or remaining non-cancelable lease term in excess of one year at December 31, 2012, are as follows:

Years Ended December 31,	
2013	$ 14,555,834
2014	14,918,629
2015	15,360,855
2016	15,744,650
After 2016	71,438,299
	$ 132,018,267

Rental expenses under the multi-year operating leases were $13,553,000 and $6,093,000 for the years ended December 31, 2012 and 2011, respectively. The Board entered into two new operating leases in early 2013. The estimated future minimum lease payments associated with the new leases total $109,337,000 over a ten year period, which is not reflected in the schedule above.

The Board leases and subleases space, primarily to other governmental agencies. The revenues collected for these leases from governmental agencies were $480,000 in both 2012 and 2011.

Deferred Rent — Other long-term liabilities include deferred rent of $20,924,000 and $19,733,000 as of the years ended December 31, 2012 and 2011, respectively. The 2012 ending balance includes non-cash lease incentives of $563,000.

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 Reserve Bank of New York (FRB NY), on behalf of the System, recognizes the net assets and costs associated with the System Plan in its financial statements. Costs associated with the System Plan were not redistributed to the Board during the year ended December 31, 2012 and 2011.

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. FRB NY, on behalf of the System, funded \$780 million and \$420 million during the years ended December 31, 2012 and 2011, respectively. The Board was not assessed a contribution for 2012 and 2011.

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, 2012 and 2011, is summarized in the following tables:

	2012	2011
Change in projected benefit obligation:		
Benefit obligation — beginning of year	$ 14,147,186	$ 11,933,435
Service cost	2,100,366	1,456,457
Interest cost	867,002	602,381
Plan participants' contributions	-	-
Actuarial (gain) loss	(1,928,409)	567,091
Gross benefits paid	(33,312)	(35,438)
Transfers to the Bureau	-	(376,740)
Benefit obligation — end of year	$ 15,152,833	$ 14,147,186
Accumulated benefit obligation — end of year	$ 3,149,276	$ 2,351,832
Weighted-average assumptions used to determine benefit obligation as of December 31:		
Discount rate	4.25 %	4.50 %
Rate of compensation increase	4.50 %	5.00 %
Change in plan assets:		
Fair value of plan assets — beginning of year	$ -	$ -
Employer contributions	33,312	35,438
Plan participants' contributions	-	-
Gross benefits paid	(33,312)	(35,438)
Fair value of plan assets — end of year	$ -	$ -
Funded status:		
Reconciliation of funded status — end of year:		
Fair value of plan assets	$ -	$ -
Benefit obligation	15,152,833	14,147,186
Funded status	(15,152,833)	(14,147,186)
Amount recognized — end of year	$ (15,152,833)	$ (14,147,186)
Amounts recognized in the statements of financial position consist of:		
Asset	$ -	$ -
Liability	(15,152,833)	(14,147,186)
Net amount recognized	$ (15,152,833)	$ (14,147,186)
Amounts recognized in accumulated other comprehensive income consist of:		
Net actuarial loss (gain)	$ 2,939,609	$ 5,535,793
Prior service cost (credit)	620,967	699,952
Net amount recognized	$ 3,560,576	$ 6,235,745

Expected cash flows:	
Expected employer contributions — 2013	$ 137,203
Expected benefit payments:*	
2013	$ 137,203
2014	164,275
2015	186,654
2016	212,730
2017	225,868
2018–2022	1,623,583

*Expected benefit payments to be made by the Board

	2012	2011
Components of net periodic benefit cost:		
Service cost	$ 2,100,366	$ 1,456,457
Interest cost	867,002	602,381
Expected return on plan assets	-	-
Amortization:		
Actuarial (gain) loss	$ 667,775	230,468
Prior service (credit) cost	78,985	1,881
Net periodic benefit cost (credit)	$ 3,714,128	$ 2,291,187
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	4.50 %	5.50 %
Rate of compensation increase	5.00 %	5.00 %
Other changes in plan assets and benefit obligations recognized in other comprehensive income:		
Current year actuarial (gain) loss	$ (1,928,409)	$ 190,351
Amortization of prior service credit (cost)	(78,985)	(1,881)
Amortization of actuarial gain (loss)	(667,775)	(230,468)
Total recognized in other comprehensive (income) loss	$ (2,675,169)	$ (41,998)
Total recognized in net periodic benefit cost and other comprehensive income	$ 1,038,959	$ 2,249,189

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in 2013 are shown below:

Net actuarial (gain) loss	$ 36,979
Prior service (credit) cost	99,779
Total	$ 136,758

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% above the Social Security integration level to 2.0%. Activity for the PEP as of December 31, 2012 and 2011, is summarized in the following tables:

	2012	2011
Change in projected benefit obligation:		
Benefit obligation — beginning of year	$ 13,250,209	$ 9,949,637
Service cost	684,473	489,236
Interest cost	750,474	589,888
Plan participants' contributions	-	-
Actuarial (gain) loss	3,856,673	2,401,971
Gross benefits paid	(101,099)	(57,124)
Transfers to the Bureau	-	(123,399)
Benefit obligation — end of year	$ 18,440,730	$ 13,250,209
Accumulated benefit obligation — end of year	$ 14,766,590	$ 10,000,174
Weighted-average assumptions used to determine benefit obligation as of December 31:		
Discount rate	4.00 %	4.50 %
Rate of compensation increase	4.50 %	5.00 %
Change in plan assets:		
Fair value of plan assets — beginning of year	$ -	$ -
Employer contributions	101,099	57,124
Plan participants' contributions	-	-
Gross benefits paid	(101,099)	(57,124)
Fair value of plan assets — end of year	$ -	$ -
Funded status:		
Reconciliation of funded status — end of year:		
Fair value of plan assets	$ -	$ -
Benefit obligation	18,440,730	13,250,209
Funded status	(18,440,730)	(13,250,209)
Amount recognized — end of year	$ (18,440,730)	$ (13,250,209)
Amounts recognized in the statements of financial position consist of:		
Asset	$ -	$ -
Liability	(18,440,730)	(13,250,209)
Net amount recognized	$ (18,440,730)	$ (13,250,209)

		2012	2011
Amounts recognized in accumulated other comprehensive income consist of:			
Net actuarial loss (gain)		$ 8,514,540	$ 5,416,792
Prior service cost (credit)		2,180,488	2,711,883
Net amount recognized		$ 10,695,028	$ 8,128,675
Expected cash flows:			
Expected employer contributions — 2013	$ 162,055		
Expected benefit payments:**			
2013	$ 162,055		
2014	$ 234,218		
2015	$ 311,695		
2016	$ 392,185		
2017	$ 478,316		
2018–2022	$ 3,813,305		
**Expected benefit payments to be made by the Board			
Components of net periodic benefit cost:			
Service cost		$ 684,473	$ 489,236
Interest cost		750,474	589,888
Expected return on plan assets		-	-
Amortization:			
Actuarial (gain) loss		758,925	327,639
Prior service (credit) cost		531,395	531,395
Net periodic benefit cost (credit)		$ 2,725,267	$ 1,938,158
Weighted-average assumptions used to determine net periodic benefit cost:			
Discount rate		4.50 %	5.50 %
Rate of compensation increase		5.00 %	5.00 %
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Current year actuarial (gain) loss		$ 3,856,673	$ 2,278,572
Amortization of prior service credit (cost)		(531,395)	(531,395)
Amortization of actuarial gain (loss)		(758,925)	(327,639)
Total recognized in other comprehensive (income) loss		$ 2,566,353	$ 1,419,538
Total recognized in net periodic benefit cost and other comprehensive income		$ 5,291,620	$ 3,357,696

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in 2013 are shown below:

Net actuarial (gain) loss	$ 757,959
Prior service (credit) cost	531,395
Total	$ 1,289,354

The total accumulated retirement benefit obligation includes a liability for a supplemental retirement agreement and a benefits equalization plan under the Federal Reserve System's Thrift Plan. The total obligation as of December 31, 2012 and 2011 is summarized in the following table:

	2012	**2011**
Retirement benefit obligation:		
Benefit obligation — BEP	$15,152,833	$14,147,186
Benefit obligation — PEP	18,440,730	13,250,209
Additional benefit obligations	146,747	88,317
Total accumulated retirement benefit obligation	$33,740,310	$27,485,712

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 $586,000 and $523,000 in 2012 and 2011, respectively. The Board has no liability for future payments to retirees under these programs and is not accountable for the assets of the plans.

Employees of the Board may also participate in the Federal Reserve System's Thrift Plan or Roth 401(k). Board contributions to members' accounts were $19,211,000 and $17,699,000 in 2012 and 2011, respectively.

7. POSTRETIREMENT BENEFITS

The Board provides certain life insurance programs for its active employees and retirees. Activity as of December 31, 2012 and 2011, is summarized in the following tables:

	2012	2011
Change in benefit obligation:		
Benefit obligation — beginning of year	$ 11,799,079	$ 10,219,672
Service cost	210,030	186,268
Interest cost	534,224	529,161
Plan participants' contributions	-	-
Actuarial (gain) loss	1,055,530	1,158,757
Gross benefits paid	(349,215)	(294,779)
Benefit obligation — end of year	$ 13,249,648	$ 11,799,079
Weighted-average assumptions used to determine benefit obligation as of December 31 — discount rate	4.00 %	4.50 %
Change in plan assets:		
Fair value of plan assets — beginning of year	$ -	$ -
Employer contributions	349,215	294,779
Gross benefits paid	(349,215)	(294,779)
Fair value of plan assets — end of year	$ -	$ -
Funded status:		
Reconciliation of funded status — end of year:		
Fair value of plan assets	$ -	$ -
Benefit obligation	13,249,648	11,799,079
Funded status	(13,249,648)	(11,799,079)
Amount recognized — end of year	$ (13,249,648)	$ (11,799,079)
Amounts recognized in the statements of financial position consist of:		
Asset	$ -	$ -
Liability	(13,249,648)	(11,799,079)
Net amount recognized	$ (13,249,648)	$ (11,799,079)

		2012	2011
Amounts recognized in accumulated other comprehensive income consist of:			
Net actuarial loss (gain)		$ 3,802,439	$ 2,980,166
Prior service cost (credit)		(225,554)	(251,044)
Net amount recognized		$ 3,576,885	$ 2,729,122
Expected cash flows:			
Expected employer contributions — 2013	$ 372,355		
Expected benefit payments:*			
2013	$ 372,355		
2014	402,603		
2015	430,068		
2016	460,866		
2017	491,282		
2018–2022	2,837,643		
*Expected benefit payments to be made by the Board			
Components of net periodic benefit cost:			
Service cost		$ 210,030	$ 186,268
Interest cost		534,224	529,161
Expected return on plan assets		-	-
Amortization:			
Actuarial (gain) loss		233,256	95,767
Prior service (credit) cost		(25,490)	(25,490)
Net periodic benefit cost (credit)		$ 952,020	$ 785,706
Weighted-average assumptions used to determine net periodic benefit cost — discount rate		4.50 %	5.25 %
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Current year actuarial (gain) loss		$ 1,055,530	$ 1,158,757
Amortization of prior service credit (cost)		25,490	25,490
Amortization of actuarial gain (loss)		(233,256)	(95,767)
Total recognized in other comprehensive (income) loss		$ 847,764	$ 1,088,480
Total recognized in net periodic benefit cost and other comprehensive income		$ 1,799,784	$ 1,874,186

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in 2013 are shown below:

Net actuarial (gain) loss	$ 313,301
Prior service (credit) cost	(25,490)
Total	$ 287,811

8. 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% and 2.25% as of December 31, 2012 and 2011, respectively. The net periodic postemployment benefit cost (credit) recognized by the Board as of December 31, 2012 and 2011, were $518,000 and ($1,606,000), 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, 2012 and 2011, 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, 2011	$ (12,986,880)	$ (1,640,642)	$ (14,627,522)
Change in funded status of benefit plans:			
Amortization of prior service (credit) costs	533,276	(25,490)	507,786
Amortization of net actuarial (gain) loss	558,107	95,767	653,874
Net actuarial gain (loss) arising during the year	(2,468,923)	(1,158,757)	(3,627,680)
Change in funded status of benefit plans — other comprehensive income (loss)	(1,377,540)	(1,088,480)	(2,466,020)
Balance — December 31, 2011	(14,364,420)	(2,729,122)	(17,093,542)
Change in funded status of benefit plans:			
Amortization of prior service (credit) costs	610,380	(25,490)	584,890
Amortization of net actuarial (gain) loss	1,426,700	233,256	1,659,956
Net actuarial gain (loss) arising during the year	(1,928,264)	(1,055,530)	(2,983,794)
Change in funded status of benefit plans — other comprehensive income (loss)	108,816	(847,764)	(738,948)
Balance — December 31, 2012	$ (14,255,604)	$ (3,576,886)	$ (17,832,490)

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

10. 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 operating expenses, to include expenses related to its currency responsibilities, as well as for the funding the Board is required to provide to the Bureau and the Office. Activity related to the Board and Reserve Banks is summarized in the following table:

	2012	2011
For the years ended December 31:		
Assessments levied or to be levied on Federal Reserve Banks for:		
Currency expenses	$ 721,074,064	$ 650,010,597
Board Operations	490,000,000	472,300,000
Transfers of funds to the Bureau	385,200,000	241,711,564
Transfers of funds to the Office	2,078,298	40,000,000
Total Assessments levied or to be levied on Federal Reserve Banks	$ 1,598,352,362	$ 1,404,022,161
Board expenses charged to the Federal Reserve Banks for data processing	$ 423,209	$ 406,421
Federal Reserve Bank expenses charged to the Board:		
Data processing and communication	$ 1,313,902	$ 788,910
Contingency site	1,191,220	1,211,362
Total Federal Reserve Bank expenses charged to the Board	$ 2,505,122	$ 2,000,272
Net transactions with Federal Reserve Banks	$ 1,596,270,449	$ 1,402,428,310
As of the years ended December 31:		
Accounts receivable due from the Federal Reserve Banks	$ 751,614	$ 2,501,565
Accounts payable due to the Federal Reserve Banks	$ 334,665	$ 16,358

The Board contracted for audit services on behalf of entities that are included in the combined financial statements of the Reserve Banks. The entities reimburse the Board for the cost of the audit services. The Board accrued liabilities of $185,000 and $293,000 in audit services and recorded net receivables of $170,000 and $500,000 from the entities as of December 31, 2012 and 2011, respectively. In 2013, the Board also entered into lease arrangements with the Reserve Banks related to space needs for the OIG and the Board's data center.

The 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 $2,530,000 and $2,596,000 for the years ended December 31, 2012 and 2011, respectively.

11. FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

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

The Board's financial statements do not include financial data for the Council. Activity related to the Board and Council is summarized in the following table:

	2012	2011
For the years ended December 31:		
Council expenses charged to the Board:		
Assessments for operating expenses	$ 137,466	$ 137,421
Assessments for examiner education	1,043,917	810,459
Central Data Repository	1,111,793	1,113,255
Home Mortgage Disclosure Act/Community Reinvestment Act	753,464	702,482
Uniform Bank Performance Report	132,294	117,215
Total Council expenses charged to the Board	$3,178,934	$2,880,832
Board expenses charged to the Council:		
Data processing related services	$4,392,625	$4,164,479
Administrative services	261,000	281,000
Total Board expenses charged to the Council	$4,653,625	$4,445,479
As of the years ended December 31:		
Accounts receivable due from the Council	$ 545,770	$ 494,234
Accounts payable due to the Council	$ 211,061	$ 132,539

12. THE BUREAU OF CONSUMER FINANCIAL PROTECTION

Beginning July 2011, Sec. 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 Board received and processed funding requests for the Bureau totaling $385,200,000 and $241,711,564 during calendar years 2012 and 2011, respectively. During 2012, the Bureau transferred $3 million to the Board related to funding the operations of the OIG.

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

13. THE OFFICE OF FINANCIAL RESEARCH

Sec. 155(c) of the Dodd-Frank Act requires the Board to provide an amount sufficient to cover the expenses of the Office for the two-year period following the date of the enactment (July 21, 2010). The expenses of the FSOC are included in the expenses of the Office. The Board received and processed funding requests for the Office totaling $42,000,000 and $40,000,000 during 2012 and 2011, respectively. At the end of the two-year period in 2012, the Office returned $39,921,702 to the Board which was returned to the Reserve Banks.

14. CURRENCY

The Bureau of Engraving and Printing (BEP) is the sole supplier for currency printing and also provides currency retirement services. The Board provides or contracts for other services associated with currency, such as shipping, eduction, and quality assurance. The currency costs incurred by the Board for the years ended December 31, 2012 and 2011, are reflected in the following table:

	2012	2011
Expenses related to BEP services:		
Printing	$ 687,704,624	$ 623,214,300
Retirement	3,132,105	3,475,244
Subtotal related to BEP services	$ 690,836,729	$ 626,689,544
Other currency expenses:		
Shipping	$ 17,179,610	$ 15,728,046
Research and development	5,316,005	4,486,525
Quality assurance services	7,259,900	2,992,053
Education services	481,820	114,429
Subtotal other currency expenses	$ 30,237,335	$ 23,321,053
Total currency expenses	$ 721,074,064	$ 650,010,597

15. COMMITMENTS AND CONTINGENCIES

Commitments — The Board has entered into an agreement with the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, through the Council, to fund a portion of the enhancements and maintenance fees for a central data repository project that requires maintenance through 2013. The estimated Board expense to support this effort is $845,000 for the remaining option period.

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

16. SUBSEQUENT EVENTS

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2012. Subsequent events were evaluated through March 5, 2013, 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 the auditing standards generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States), and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Board of Governors of the Federal Reserve System (the "Board") as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements. We have also audited, in accordance with 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 (United States), the Board's internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. We have issued our report on the aforementioned audits dated March 5, 2013.

Compliance and Other Matters

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

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 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.

Deloitte & Touche LLP

March 5, 2013