

Board of Governors of the Federal Reserve System

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# Board of Governors of the Federal Reserve System Financial Statements as of and for the Years Ended December 31, 2017 and 2016, and Independent Auditors' Reports



**Office of Inspector General**

Board of Governors of the Federal Reserve System  
Consumer Financial Protection Bureau



**Office of Inspector General**

Board of Governors of the Federal Reserve System  
Consumer Financial Protection Bureau

## MEMORANDUM

**DATE:** March 5, 2018

**TO:** Board of Governors

**FROM:** Mark Bialek   
Inspector General

**SUBJECT:** 2017 Audit of the Board's Financial Statements and Internal Control Over Financial Reporting

This memorandum transmits the Independent Auditors' Report, prepared by KPMG LLP, on the Board of Governors of the Federal Reserve System's (Board) financial statements and internal control over financial reporting and KPMG's Report on Compliance and Other Matters. We contracted with KPMG to audit the financial statements of the Board as of and for the years ended December 31, 2017 and 2016, and to audit the Board's internal control over financial reporting as of December 31, 2017.

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

We reviewed and monitored the work of KPMG to ensure compliance with the contract. KPMG is responsible for the accompanying Independent Auditors' Report and the Report on Compliance and Other Matters, both dated March 5, 2018.

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

cc: Ricardo Aguilera, Chief Financial Officer and Director, Division of Financial Management  
Michell Clark, Director, Management Division  
Donald V. Hammond, Chief Operating Officer, Office of the Chief Operating Officer  
Sharon Mowry, Chief Information Officer and Director, Division of Information Technology  
Michelle A. Smith, Assistant to the Board, Chief of Staff, and Director, Office of Board Members  
Mark Van Der Weide, General Counsel, Legal Division

# Board of Governors of the Federal Reserve System

Financial Statements as of and for the  
Years Ended December 31, 2017 and 2016,  
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, 2018

**Management's Report on Internal Control over Financial Reporting**

To the Committee on Board Affairs

The management of the Board of Governors of the Federal Reserve System (the Board) is responsible for the preparation and fair presentation of the balance sheet as of December 31, 2017 and 2016, and the statement of operations and cash flows for the years then ended (the financial statements). The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, and, as such, include some amounts that are based on management judgments and estimates. To our knowledge, the financial statements are, in all material respects, fairly presented in conformity with generally accepted accounting principles and include all disclosures necessary for such fair presentation.

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

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

The management of the Board assessed its internal control over financial reporting based upon the criteria established in the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we believe that the Board maintained effective internal control over financial reporting.

by

  
Donald V. Hammond  
Chief Operating Officer

by

  
Ricardo A. Aguilera  
Chief Financial Officer



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

## Report of Independent Registered Public Accounting Firm

To the Board of Governors of the Federal Reserve System:

### *Opinions on the Financial Statements and Internal Control Over Financial Reporting*

We have audited the accompanying balance sheets of the Board of Governors of the Federal Reserve System (the Board) as of December 31, 2017 and 2016, the related statements of operations and cash flows for the years then ended, and the related notes (collectively, the financial statements). We also have audited the Board's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Board maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

### *Basis for Opinions*

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

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

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



### *Definition and Limitations of Internal Control Over Financial Reporting*

An entity's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

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

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 5, 2018 on our tests of the Board's compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's compliance.

**KPMG LLP**

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

Washington, District of Columbia  
March 5, 2018

## Board of Governors of the Federal Reserve System Balance Sheets

	As of December 31,	
	2017	2016
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 177,529,448	\$ 148,254,554
Accounts receivable – net	2,183,803	3,668,675
Prepaid expenses and other assets	<u>7,335,702</u>	<u>6,439,080</u>
Total current assets	<u>187,048,953</u>	<u>158,362,309</u>
<b>Noncurrent assets:</b>		
Property, equipment, and software – net	266,484,427	249,778,925
Other assets	<u>941,190</u>	<u>886,914</u>
Total noncurrent assets	<u>267,425,617</u>	<u>250,665,839</u>
Total	<u>\$ 454,474,570</u>	<u>\$ 409,028,148</u>
<b>Liabilities and cumulative results of operations</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 27,203,026	\$ 16,758,668
Accrued payroll and related taxes	37,953,047	34,327,731
Accrued annual leave	40,857,846	39,291,409
Capital lease payable	77,744	53,892
Unearned revenues and other liabilities	<u>4,455,970</u>	<u>3,047,005</u>
Total current liabilities	<u>110,547,633</u>	<u>93,478,705</u>
<b>Long-term liabilities:</b>		
Capital lease payable	140,342	114,041
Retirement benefit obligation	102,881,136	73,943,482
Postretirement benefit obligation	15,915,271	14,202,446
Postemployment benefit obligation	7,055,281	7,215,147
Deferred rent	45,418,714	39,311,002
Other liabilities	<u>-</u>	<u>688,047</u>
Total long-term liabilities	<u>171,410,744</u>	<u>135,474,165</u>
Total liabilities	<u>281,958,377</u>	<u>228,952,870</u>
<b>Cumulative results of operations:</b>		
Fund balance	222,621,531	211,493,395
Accumulated other comprehensive loss	<u>(50,105,338)</u>	<u>(31,418,117)</u>
Total cumulative results of operations	<u>172,516,193</u>	<u>180,075,278</u>
Total	<u>\$ 454,474,570</u>	<u>\$ 409,028,148</u>

See notes to financial statements.

## Board of Governors of the Federal Reserve System Statements of Operations

For the years ended December 31,

	2017	2016
<b>Board operating revenues:</b>		
Assessments levied on Federal Reserve Banks for Board operating expenses and capital expenditures	\$ 740,000,000	\$ 709,000,000
Assessments levied on Federal Reserve Banks for currency-related operating expenses and capital expenditures	44,008,726	-
Other revenues	<u>17,141,918</u>	<u>18,468,177</u>
Total operating revenues	<u>801,150,644</u>	<u>727,468,177</u>
<b>Board operating expenses:</b>		
Salaries	437,179,633	416,636,315
Retirement, insurance, and benefits	97,442,384	88,804,438
Other components of net periodic pension and postretirement costs	7,330,010	6,022,057
Contractual services and professional fees	55,430,150	49,176,932
Depreciation, amortization, and net gains or losses on disposals	40,023,558	39,487,196
Travel	14,020,574	15,338,072
Non-capital furniture, equipment, postage, and supplies	34,372,697	7,268,471
Data, news, and research	13,372,175	30,607,031
Utilities	8,353,654	9,174,260
Software	16,010,063	14,838,146
Rentals of space	31,325,898	28,852,005
Repairs and maintenance	8,304,501	8,100,370
Other expenses	<u>26,857,211</u>	<u>11,022,788</u>
Total operating expenses	<u>790,022,508</u>	<u>725,328,081</u>
Net income	<u>11,128,136</u>	<u>2,140,096</u>
<b>Currency costs:</b>		
Assessments levied or to be levied on Federal Reserve Banks for currency costs	679,613,935	700,713,295
Expenses for costs related to currency	<u>679,613,935</u>	<u>700,713,295</u>
Currency assessments over (under) expenses	<u>-</u>	<u>-</u>
<b>Bureau of Consumer Financial Protection (Bureau):</b>		
Assessments levied on the Federal Reserve Banks for the Bureau	573,000,000	596,200,000
Transfers to the Bureau	<u>573,000,000</u>	<u>596,200,000</u>
Bureau assessments over (under) transfers	<u>-</u>	<u>-</u>
Total net income	<u>\$ 11,128,136</u>	<u>\$ 2,140,096</u>

See notes to financial statements.

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

	For the years ended December 31,	
	2017	2016
<b>Other comprehensive income:</b>		
Pension and other postretirement benefit plans:		
Amortization of prior service cost	\$ 138,609	605,483
Amortization of net actuarial loss	2,856,656	1,832,267
Net actuarial loss arising during the year	<u>(21,682,486)</u>	<u>(13,262,638)</u>
Total other comprehensive loss	<u>(18,687,221)</u>	<u>(10,824,888)</u>
Comprehensive income (loss)	<u>(7,559,085)</u>	<u>(8,684,792)</u>
Cumulative results of operations – beginning of year	<u>180,075,278</u>	<u>188,760,070</u>
Cumulative results of operations – end of year	<u>\$ 172,516,193</u>	<u>\$ 180,075,278</u>

See notes to financial statements.

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

	For the years ended December 31,	
	2017	2016
<b>Cash flows from operating activities:</b>		
Net income	\$ 11,128,136	\$ 2,140,096
<b>Adjustments to reconcile results of operations to net cash provided by (used in) operating activities:</b>		
Depreciation and amortization	38,904,644	38,082,839
Net loss on disposal of property and equipment	1,118,914	1,404,357
Other additional noncash adjustments to results of operations	324,078	(207,215)
<b>(Increase) decrease in assets:</b>		
Accounts receivable	1,484,872	(635,836)
Prepaid expenses	(896,622)	(1,177,486)
Other assets	(54,276)	297,222
<b>Increase (decrease) in liabilities:</b>		
Accounts payable and accrued liabilities	4,498,215	1,788,402
Accrued payroll and related taxes	3,625,316	5,326,995
Accrued annual leave	1,566,437	2,494,932
Unearned revenues and other liabilities	(360,536)	40,574
Net retirement benefit obligation	11,398,148	8,799,235
Net postretirement benefit obligation	565,113	538,831
Net postemployment benefit obligation	(159,866)	(1,405,061)
Deferred rent	(1,625,988)	(2,013,269)
Other long-term liabilities	-	-
	71,516,585	55,474,616
Net cash provided by operating activities		
<b>Cash flows from investing activities:</b>		
Capital expenditures	(42,195,544)	(28,723,996)
	(42,195,544)	(28,723,996)
Net cash used in investing activities		
<b>Cash flows from financing activities:</b>		
Capital lease payments	(46,147)	(174,308)
	(46,147)	(174,308)
Net cash used in financing activities		
Net increase (decrease) in cash	29,274,894	26,576,312
Cash balance – beginning of year	148,254,554	121,678,242
Cash balance – end of year	\$177,529,448	\$ 148,254,554

See notes to financial statements.

# **Board of Governors of the Federal Reserve System Notes to Financial Statements as of and for the Years Ended December 31, 2017 and 2016**

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## **(1) Structure**

The Federal Reserve System (the System) was established by Congress in 1913 and consists of the Board of Governors (the Board), the Federal Open Market Committee (FOMC), the twelve regional Federal Reserve Banks (Reserve Banks), the Federal Advisory Council, and the private commercial banks that are members of the System. The Board, unlike the Reserve Banks, was established as a federal government agency and is located in Washington, D.C. The Board has established two other committees that directly provide perspectives and input from various sectors of the economy: the Community Advisory Council and the Community Depository Institutions Advisory Council.

The Board is required by the Federal Reserve Act (the Act) to report its operations to the Speaker of the House of Representatives. The Act also requires the Board, each year, to order a financial audit of each Reserve Bank and to publish each week a statement of the financial condition of each Reserve Bank and a combined statement for all of the Reserve Banks. Accordingly, the Board believes that the best financial disclosure consistent with law is achieved by issuing separate financial statements for the Board and for the Reserve Banks. Therefore, the accompanying financial statements include only the results of operations and activities of the Board. Combined financial statements for the Reserve Banks are included in the Board's annual report to the Speaker of the House of Representatives and weekly statements are available on the Board's public website.

The Dodd-Frank Wall Street Reform and Consumer Financial Protection Act of 2010 (Dodd-Frank Act) established the Bureau of Consumer Financial Protection (Bureau) as an independent bureau within the System and designated the Board's Office of Inspector General (OIG) as the OIG for the Bureau. As required by the Dodd-Frank Act, the Board transferred certain responsibilities to the Bureau. The Dodd-Frank Act requires the Board to fund the Bureau from the combined earnings of the System. Section 1017 of the Dodd-Frank Act provides that the financial statements of the Bureau are not to be consolidated with those of the Board or the System. Accordingly, the Board's financial statements do not include financial data of the Bureau other than the funding that the Board is required by the Dodd-Frank Act to provide.

## **(2) Operations and Services**

The Board's responsibilities require thorough analysis of domestic and international financial and economic developments. The Board carries out those responsibilities in conjunction with the Reserve Banks and the FOMC. The Board also exercises general oversight of the operations of the Reserve Banks and exercises broad responsibility in the nation's payments system. Policy regarding open market operations is established by the FOMC. However, the Board has sole authority over changes in reserve requirements, and it must approve any change in the discount rate initiated by a Reserve Bank. The Board also plays a major role in the supervision and regulation of the U.S. financial system. It has supervisory responsibilities for state-chartered banks that are members of the System, bank holding companies, savings and loan holding companies, foreign activities of member banks, U.S. activities of foreign banks, and any nonbank financial companies the Financial Stability Oversight Council (FSOC) has determined should be supervised by the Board. Although the Dodd-Frank Act gave the Bureau general rule-writing responsibility for federal consumer financial laws, the Board retains rule-writing responsibility under the Community Reinvestment Act and other specific statutory provisions. The Board also enforces the requirements of federal consumer

financial laws for state member banks with assets of \$10 billion or less. In addition, the Board enforces certain other consumer laws at all state member banks, regardless of size.

The Dodd-Frank Act directs the Board to collect assessments, fees, or other charges equal to the total expenses the Board estimates are necessary or appropriate to carry out the supervisory and regulatory responsibilities of the Board for bank holding companies and savings and loan holding companies with total consolidated assets of \$50 billion or more and nonbank financial companies designated for Board supervision by the FSOC. As an agent, the Board does not recognize the supervision and regulation assessments as revenue nor does the Board use the collections to fund Board expenses; the funds are transferred to the United States Treasury (Treasury).

Beginning in December 2015, the Fixing America's Surface Transportation Act (FAST Act) requires that any amount of surplus funds of the Reserve Banks that exceed or would exceed \$10 billion be transferred to the Treasury via the Board. Subsequent to the balance sheet date the Bipartisan Budget Act of 2018 was signed into law, effective February 9, 2018, reducing the statutory limit on aggregate Reserve Bank surplus from \$10 billion to \$7.5 billion. As an intermediary transfer agent, the Board does not recognize the remittances as revenue nor does the Board use the remittances to fund Board expenses. Additional information and disclosures regarding these remittances to the Treasury can be found in the combined financial statements of the Federal Reserve Banks.

### (3) Significant Accounting Policies

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

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

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

**Assessments for Currency Costs** — The Board issues the nation's currency (in the form of Federal Reserve notes), and the Reserve Banks distribute currency through depository institutions. The Board incurs costs and assesses the Reserve Banks for these costs related to producing, issuing, and retiring Federal Reserve notes as well as providing other services. The assessment is allocated based on each Reserve Bank's share of the number of notes comprising the System's net liability for Federal Reserve notes on December 31 of the prior year. The Board recognizes the assessment in the year in which the associated costs are incurred. In 2017, the Board has started undertaking a greater role in the currency program including the areas of research and development, and quality assurance. This expanded role is reflected in the reclassification of certain revenue and expense transactions when compared to prior years. The Board's Statements of Operations include costs and assessments reported within Board operating activities, as it relates to the 2017 activity, and certain costs and assessments are reported separately from the Board's operating activities. See the currency footnote disclosures for more detail on these costs.

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

**Accounts Receivable and Allowance for Doubtful Accounts** — Accounts receivable are recorded when amounts are billed but not yet received and are shown net of the allowance for doubtful accounts. Accounts receivable considered uncollectible are charged against the allowance account in the year they are deemed uncollectible. The allowance for doubtful accounts is adjusted monthly, based upon a review of outstanding receivables.

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

**Property, Equipment, and Software** — The Board's property, equipment, and software are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets, which range from three to ten years for furniture and equipment, ten to fifty years for building equipment and structures, and two to five years for software. Upon the sale or other disposition of a depreciable asset, the cost and related accumulated depreciation or amortization are removed and any gain or loss is recognized. Construction in process includes costs incurred for short-term and long-term projects that have not been placed into service; the majority of the balance represents long-term building enhancement projects.

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

**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.

**Operating Leases and Deferred Rent** — Leases for certain space contain scheduled rent increases over the term of the lease. Along with rent abatements and lease incentives, the scheduled rent increases are spread on a straight-line basis over the term of the lease in determining the annual rent expense to be recognized. The deferred rent represents the difference between the actual lease payments and the rent expense recognized. Lease incentives impact deferred rent and are noncash transactions.

**Benefit Obligations** — The Board records annual amounts relating to its non-qualified retirement, postretirement, and postemployment plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, compensation increases, and health-care cost trends. The Board reviews the assumptions on an annual basis and makes modifications to the assumptions based on a variety of factors. The effect of the modifications is recorded in accumulated

other comprehensive income and amortized to net periodic cost over future periods, which is presented in the accumulated other comprehensive income (loss) footnote.

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

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

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

**Recently Issued Accounting Standards** — In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). This update revises the model to assess how a lease should be classified and provides guidance for lessees, requiring lessees to present right-of-use assets and lease liabilities on the balance sheet. The update is effective no later than the year ended December 31, 2020, although earlier adoption is permitted. The Board will evaluate the effect of this new guidance on its financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). This update was issued to create common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The guidance is applicable to all contracts for the transfer of goods or services regardless of industry or type of transaction. This update requires recognition of revenue in a manner that reflects the consideration that the entity expects to receive in return for the transfer of goods or services to customers. Subsequently, the FASB issued a number of related ASUs, including ASU 2015-14, *Revenue from Contracts with Customers* (Topic 606): *Deferral of the Effective Date*; ASU 2016-08, *Revenue from Contracts with Customers* (Topic 606): *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*; ASU 2016-10, *Revenue from Contracts with Customers* (Topic 606): *Identifying Performance Obligations and Licensing*; ASU 2016-12, *Revenue from Contracts with Customers* (Topic 606): *Narrow-Scope Improvements and Practical Expedients*; and ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*. This revenue recognition accounting guidance is effective for the Board for the year ending December 31, 2019, and is not expected to have a material effect on the Board's financial statements since the Board reports annually and satisfies all material performance obligations prior to year-end.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (Topic 715). This update requires an employer to disaggregate the service cost component from the other components of net benefit cost. It also provides explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allows only the service cost component of net benefit cost to be eligible for capitalization. This update is effective for the Board for the year ended December 31, 2019, although early adoption is permitted. The Board has decided to adopt this guidance in 2017. See changes reflected in the Statements of Operations.

#### (4) Property, Equipment, and Software

The following is a summary of the components of the Board's property, equipment, and software, at cost, less accumulated depreciation and amortization as of December 31, 2017 and 2016:

	As of December 31,	
	2017	2016
Land	\$ 18,640,314	\$ 18,640,314
Buildings and improvements	310,235,261	309,910,316
Construction in process	31,670,962	12,106,227
Furniture and equipment	77,682,539	76,548,612
Software in use	59,373,571	47,862,713
Software in process	3,462,045	6,686,732
Vehicles	2,297,985	2,337,638
Lease – office equipment	<u>283,300</u>	<u>187,000</u>
Subtotal	503,645,977	474,279,552
Less accumulated depreciation and amortization	<u>(237,161,550)</u>	<u>(224,500,627)</u>
Property, equipment, and software – net	<u>\$ 266,484,427</u>	<u>\$249,778,925</u>

Construction in process include costs incurred in the current or prior years for long-term projects and building enhancements. The Board recorded noncash capital assets of goods received or services performed of \$5,946,000 for the year ended December 31, 2017.

#### (5) Leases

**Capital Leases** — The Board entered into capital leases for copier equipment in 2012 that terminated in May 2016. The Board entered into new capital leases in 2016 with lease terms that extend through 2020. Furniture and equipment includes capitalized leases of \$283,000 and \$187,000 as of 2017 and 2016, respectively. Accumulated depreciation includes \$77,000 and \$27,000 related to assets under capital leases as of 2017 and 2016, respectively. The depreciation expense for leased equipment is \$50,000 and \$116,000 for 2017 and 2016, 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, 2017, are as follows:

	Years Ended December 31,	Amount
2018		\$ 72,389
2019		77,636
2020		49,698
2021		29,742
2022		<u>22,306</u>
Total minimum lease payments		251,771
Less amount representing maintenance		<u>(39,957)</u>
Net minimum lease payments		211,814
Less amount representing interest		<u>(6,069)</u>
Present value of net minimum lease payments		205,745
Less current maturities of capital lease payments		<u>(65,403)</u>
Long-term capital lease obligations		<u><u>\$ 140,342</u></u>

**Operating Leases** — The Board has entered into operating leases for copier equipment and to secure office, training, data center, and warehouse space. Several of the leases are with other governmental agencies and Reserve Banks. Minimum annual payments under the multiyear operating leases having an initial or remaining noncancelable lease term in excess of one year at December 31, 2017, are as follows:

	Years Ended December 31,	Total
2018	\$	33,654,956
2019		37,173,221
2020		36,187,966
2021		36,697,577
After 2021		<u>94,424,344</u>
		<u><u>\$ 238,138,064</u></u>

**Deferred Rent** — The Board recorded noncash lease incentives of \$7,734,000 and \$1,009,000 for the years ended December 31, 2017 and 2016, respectively.

**(6) Retirement Benefits**

Substantially all of the Board's employees participate in the Retirement Plan for Employees of the Federal Reserve System (the System Plan). The System Plan provides retirement benefits to

employees of the Board, the Reserve Banks, the Office of Employee Benefits of the Federal Reserve System (OEB), and certain employees of the Bureau. The Federal Reserve Bank of New York (FRBNY), on behalf of the System, recognizes the net assets and costs associated with the System Plan in its financial statements; costs associated with the System Plan are not redistributed to the Board.

Employees of the Board who became employed prior to 1984 are covered by a contributory defined benefits program under the System Plan. Employees of the Board who became employed after 1983 are covered by a non-contributory defined benefits program under the System Plan. FRBNY, on behalf of the System, funded \$720 million and \$580 million during each of the years ended December 31, 2017 and 2016, respectively. The Board was not assessed a contribution for 2017 or 2016.

In October 2017, the Society of Actuaries released new mortality tables (RP-2017) and mortality projection scales (MP-2017). The System analyzed each of these updates to the mortality tables and compared them to the System's actual retiree mortality experience. Based on these analyses, the System adopted modified RP-2017 mortality tables and adjusted MP-2017 projection scales reflecting the System's recent mortality experience of System retirees through 2016. The adjusted tables and scales included the Board and resulted in an estimated gain of the BEP and PEP (see below) projected benefit obligations of approximately \$250,000 and \$140,000, respectively in 2017 and with no adjustments made in 2016.

**Benefits Equalization Plan** — Board employees covered under the System Plan are also covered under a Benefits Equalization Plan (BEP). Benefits paid under the BEP are limited to those benefits that cannot be paid from the System Plan due to limitations imposed by the Internal Revenue Code. Activity for the BEP as of December 31, 2017 and 2016, is summarized in the following tables:

	2017	2016
<b>Change in projected benefit obligation:</b>		
Benefit obligation – beginning of year	\$ 41,832,904	\$ 27,995,628
Service cost	4,359,375	2,844,118
Interest cost	2,365,386	1,652,323
Plan participants’ contributions	-	-
Actuarial loss	18,158,332	9,371,473
Gross benefits paid	<u>(61,229)</u>	<u>(30,638)</u>
Benefit obligation – end of year	<u>\$ 66,654,768</u>	<u>\$ 41,832,904</u>
Accumulated benefit obligation – end of year	<u>\$ 11,854,561</u>	<u>\$ 6,436,909</u>
<b>Weighted-average assumptions used to determine benefit obligation as of December 31:</b>		
Discount rate	3.75 %	4.32 %
Rate of compensation increase	4.00 %	4.00 %
<b>Change in plan assets:</b>		
Fair value of plan assets – beginning of year	\$ -	\$ -
Employer contributions	61,229	30,638
Plan participants’ contributions	-	-
Gross benefits paid	<u>(61,229)</u>	<u>(30,638)</u>
Fair value of plan assets – end of year	<u>\$ -</u>	<u>\$ -</u>
<b>Funded status:</b>		
<b>Reconciliation of funded status – end of year:</b>		
Fair value of plan assets	\$ -	\$ -
Benefit obligation (current)	145,694	114,021
Benefit obligation (noncurrent)	<u>66,509,074</u>	<u>41,718,883</u>
Funded status	<u>(66,654,768)</u>	<u>(41,832,904)</u>
Amount recognized – end of year	<u>\$ (66,654,768)</u>	<u>\$ (41,832,904)</u>
<b>Amounts recognized in the balance sheets consist of:</b>		
Asset	\$ -	\$ -
Liability – current	(145,694)	(114,021)
Liability – noncurrent	<u>(66,509,074)</u>	<u>(41,718,883)</u>
Net amount recognized	<u>\$ (66,654,768)</u>	<u>\$ (41,832,904)</u>
<b>Amounts recognized in accumulated other comprehensive income consist of:</b>		
Net actuarial loss	\$ 32,673,765	\$ 16,312,103
Prior service cost	<u>122,876</u>	<u>222,454</u>
Net amount recognized	<u>\$ 32,796,641</u>	<u>\$ 16,534,557</u>

**Expected cash flows:**

Expected employer contributions – 2018	<u>\$ 145,694</u>
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**Expected benefit payments:\***

2018	\$ 145,694
2019	\$ 203,527
2020	\$ 266,382
2021	\$ 365,449
2022	\$ 456,336
2023–2027	\$ 4,621,973

\* Expected benefit payments to be made by the Board.

	2017	2016
<b>Components of net periodic benefit cost:</b>		
Service cost	\$ 4,359,375	\$ 2,844,118
Interest cost	2,365,386	1,652,323
Expected return on plan assets	-	-
<b>Amortization:</b>		
Actuarial (gain) loss	\$ 1,796,670	\$ 787,148
Prior service cost	<u>99,578</u>	<u>99,578</u>
Net periodic benefit cost	<u>\$ 8,621,009</u>	<u>\$ 5,383,167</u>

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

Discount rate	4.32 %	4.67 %
Rate of compensation increase	4.00 %	4.00 %

**Other changes in plan assets and benefit obligations recognized in other comprehensive income:**

Current year actuarial loss	\$ 18,158,332	\$ 9,371,473
Amortization of prior service cost	(99,578)	(99,578)
Amortization of actuarial gain (loss)	<u>(1,796,670)</u>	<u>(787,148)</u>
Total recognized in other comprehensive loss	<u>\$ 16,262,084</u>	<u>\$ 8,484,747</u>
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$ 24,883,093</u>	<u>\$ 13,867,914</u>

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in 2018 are shown below:

Net actuarial loss	\$ 2,352,810
Prior service cost	<u>83,187</u>
Total	<u>\$ 2,435,997</u>

**Pension Enhancement Plan** — The Board also provides another non-qualified plan for officers of the Board. The retirement benefits covered under the Pension Enhancement Plan (PEP) increase the pension benefit calculation from 1.8 percent above the Social Security integration level to 2.0 percent. Activity for the PEP as of December 31, 2017 and 2016, is summarized in the following tables:

	2017	2016
<b>Change in projected benefit obligation:</b>		
Benefit obligation – beginning of year	\$ 32,378,804	\$ 26,876,261
Service cost	1,094,459	1,063,168
Interest cost	1,358,925	1,326,009
Plan participants' contributions	-	-
Actuarial loss	2,164,636	3,371,408
Gross benefits paid	<u>(406,149)</u>	<u>(258,042)</u>
Benefit obligation – end of year	<u>\$ 36,590,675</u>	<u>\$ 32,378,804</u>
Accumulated benefit obligation – end of year	<u>\$ 31,462,483</u>	<u>\$ 25,242,076</u>
<b>Weighted-average assumptions used to determine benefit obligation as of December 31:</b>		
Discount rate	3.69 %	4.22 %
Rate of compensation increase	4.00 %	4.00 %
<b>Change in plan assets:</b>		
Fair value of plan assets – beginning of year	\$ -	\$ -
Employer contributions	406,149	258,042
Plan participants' contributions	-	-
Gross benefits paid	<u>(406,149)</u>	<u>(258,042)</u>
Fair value of plan assets – end of year	<u>\$ -</u>	<u>\$ -</u>
<b>Funded status:</b>		
<b>Reconciliation of funded status – end of year:</b>		
Fair value of plan assets	\$ -	\$ -
Benefit obligation – current	456,157	363,216
Benefit obligation – noncurrent	<u>36,134,518</u>	<u>32,015,588</u>
Funded status	<u>(36,590,675)</u>	<u>(32,378,804)</u>
Amount recognized – end of year	<u>\$ (36,590,675)</u>	<u>\$ (32,378,804)</u>
<b>Amounts recognized in the balance sheets consist of:</b>		
Asset	\$ -	\$ -
Liability – current	(456,157)	(363,216)
Liability – noncurrent	<u>(36,134,518)</u>	<u>(32,015,588)</u>
Net amount recognized	<u>\$ (36,590,675)</u>	<u>\$ (32,378,804)</u>

	2017	2016
<b>Amounts recognized in accumulated other comprehensive income consist of:</b>		
Net actuarial loss	\$ 13,350,579	\$ 12,018,247
Prior service cost	<u>-</u>	<u>54,908</u>
Net amount recognized	<u>\$ 13,350,579</u>	<u>\$ 12,073,155</u>
<b>Expected cash flows:</b>		
Expected employer contributions – 2018	<u>\$ 456,157</u>	
<b>Expected benefit payments:*</b>		
2018	\$ 456,157	
2019	\$ 599,410	
2020	\$ 742,705	
2021	\$ 894,316	
2022	\$ 1,060,766	
2023–2027	\$ 7,969,124	
* Expected benefit payments to be made by the Board.		
<b>Components of net periodic benefit cost:</b>		
Service cost	\$ 1,094,459	\$ 1,063,168
Interest cost	1,358,925	1,326,009
Expected return on plan assets	-	-
<b>Amortization:</b>		
Actuarial loss	832,304	872,453
Prior service cost	<u>54,908</u>	<u>531,395</u>
Net periodic benefit cost	<u>\$ 3,340,596</u>	<u>\$ 3,793,025</u>
<b>Weighted-average assumptions used to determine net periodic benefit cost:</b>		
Discount rate	4.22 %	4.52 %
Rate of compensation increase	4.00 %	4.00 %
<b>Other changes in plan assets and benefit obligations recognized in other comprehensive income:</b>		
Current year actuarial loss	\$ 2,164,636	\$ 3,371,408
Amortization of prior service cost	(54,908)	(531,395)
Amortization of actuarial loss	<u>(832,304)</u>	<u>(872,453)</u>
Total recognized in other comprehensive (income) loss	<u>\$ 1,277,424</u>	<u>\$ 1,967,560</u>
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$ 4,618,020</u>	<u>\$ 5,760,585</u>

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in 2018 are shown below:

Net actuarial loss	\$ 1,065,514
Prior service cost	<u>-</u>
Total	<u>\$ 1,065,514</u>

The total accumulated retirement benefit obligation includes a liability for a supplemental retirement agreement and a benefits equalization plan under the System's Thrift Plan. The total obligation as of December 31, 2017 and 2016, is summarized in the following table:

	2017	2016
<b>Retirement benefit obligation:</b>		
Benefit obligation – BEP	\$ 66,654,768	\$41,832,904
Benefit obligation – PEP	36,590,675	32,378,804
Additional benefit obligations	<u>237,544</u>	<u>209,011</u>
Total accumulated retirement benefit obligation	<u>\$ 103,482,987</u>	<u>\$74,420,719</u>

A relatively small number of Board employees participate in the Civil Service Retirement System or the Federal Employees' Retirement System. These defined benefit plans are administered by the U.S. Office of Personnel Management, which determines the required employer contribution levels. The Board's contributions to these plans totaled \$1,080,000 and \$939,000 in 2017 and 2016, respectively. The Board has no liability for future payments to retirees under these programs and is not accountable for the assets of the plans.

Employees of the Board may also participate in the System's Thrift Plan or Roth 401(k). Board contributions to members' accounts were \$27,320,000 and \$25,985,000 in 2017 and 2016, respectively.

**(7) Postretirement Benefits**

The Board provides certain life insurance programs for its active employees and retirees. Activity as of December 31, 2017 and 2016, is summarized in the following tables:

	2017	2016
<b>Change in benefit obligation:</b>		
Benefit obligation – beginning of year	\$ 14,710,985	\$ 13,777,546
Service cost	164,069	167,045
Interest cost	610,434	605,975
Plan participants’ contributions	-	-
Actuarial loss	1,359,518	519,758
Gross benefits paid	<u>(377,971)</u>	<u>(359,339)</u>
Benefit obligation – end of year	<u>\$ 16,467,035</u>	<u>\$ 14,710,985</u>
<b>Weighted-average assumptions used to determine benefit obligation as of December 31 – discount rate</b>	3.64 %	4.14 %
<b>Change in plan assets:</b>		
Fair value of plan assets – beginning of year	\$ -	\$ -
Employer contributions	377,971	359,339
Gross benefits paid	<u>(377,971)</u>	<u>(359,339)</u>
Fair value of plan assets – end of year	<u>\$ -</u>	<u>\$ -</u>
<b>Funded status:</b>		
<b>Reconciliation of funded status – end of year:</b>		
Fair value of plan assets	\$ -	\$ -
Benefit obligation – current	551,764	508,539
Benefit obligation – noncurrent	<u>15,915,271</u>	<u>14,202,446</u>
Funded status	<u>(16,467,035)</u>	<u>(14,710,985)</u>
Amount recognized – end of year	<u>\$ (16,467,035)</u>	<u>\$ (14,710,985)</u>
<b>Amounts recognized in the balance sheets consist of:</b>		
Asset	\$ -	\$ -
Liability – current	(551,764)	(508,539)
Liability – noncurrent	<u>(15,915,271)</u>	<u>(14,202,446)</u>
Net amount recognized	<u>\$ (16,467,035)</u>	<u>\$ (14,710,985)</u>

	2017	2016
<b>Amounts recognized in accumulated other comprehensive income consist of:</b>		
Net actuarial loss	\$ 4,065,836	\$ 2,934,000
Prior service credit	<u>(107,717)</u>	<u>(123,594)</u>
Net amount recognized	<u>\$ 3,958,119</u>	<u>\$ 2,810,406</u>
<b>Expected cash flows:</b>		
Expected employer contributions – 2018	<u>\$ 551,764</u>	
<b>Expected benefit payments:*</b>		
2018	\$ 551,764	
2019	\$ 579,169	
2020	\$ 607,237	
2021	\$ 649,663	
2022	\$ 674,285	
2023–2027	\$ 3,787,242	
* Expected benefit payments to be made by the Board.		
<b>Components of net periodic benefit cost:</b>		
Service cost	\$ 164,069	\$ 167,045
Interest cost	610,434	605,975
Expected return on plan assets	-	
Amortization:		
Actuarial loss	227,682	172,666
Prior service credit	<u>(15,877)</u>	<u>(25,490)</u>
Net periodic benefit cost	<u>\$ 986,308</u>	<u>\$ 920,196</u>
<b>Weighted-average assumptions used to determine net periodic benefit cost – discount rate</b>	4.14 %	4.41 %
<b>Other changes in plan assets and benefit obligations recognized in other comprehensive income:</b>		
Current year actuarial loss	\$ 1,359,518	\$ 519,758
Amortization of prior service credit	15,877	25,490
Amortization of actuarial loss	<u>(227,682)</u>	<u>(172,666)</u>
Total recognized in other comprehensive (income) loss	<u>\$ 1,147,713</u>	<u>\$ 372,582</u>
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$ 2,134,021</u>	<u>\$ 1,292,778</u>

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in 2018 are shown below:

Net actuarial loss	\$ 348,950
Prior service credit	<u>(9,599)</u>
Total	<u>\$ 339,351</u>

**(8) Postemployment Benefits**

The Board provides certain postemployment benefits to eligible former or inactive employees and their dependents. Postemployment costs were actuarially determined using a December 31 measurement date and discount rates of 2.59 percent and 2.78 percent as of December 31, 2017 and 2016, respectively. The net periodic postemployment benefit cost (credit) recognized by the Board as of December 31, 2017 and 2016, was \$1,017,000 and (\$569,000), 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, 2017 and 2016, 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, 2016	\$ (18,155,405)	\$ (2,437,824)	\$ (20,593,229)
<b>Change in accumulated other comprehensive income (loss):</b>			
Net actuarial loss arising during the year	<u>(12,742,881)</u>	<u>(519,757)</u>	<u>(13,262,638)</u>
Other comprehensive income before reclassifications	<u>(12,742,881)</u>	<u>(519,757)</u>	<u>(13,262,638)</u>
Amortization of prior service (credit) costs <sup>(a)(b)</sup>	630,973	(25,490)	605,483
Amortization of net actuarial loss <sup>(a)(b)</sup>	<u>1,659,601</u>	<u>172,666</u>	<u>1,832,267</u>
Amounts reclassified from accumulated other comprehensive income	<u>2,290,574</u>	<u>147,176</u>	<u>2,437,750</u>
Change in accumulated other comprehensive loss	<u>(10,452,307)</u>	<u>(372,581)</u>	<u>(10,824,888)</u>
Balance – December 31, 2016	<u>(28,607,712)</u>	<u>(2,810,405)</u>	<u>(31,418,117)</u>
<b>Change in accumulated other comprehensive income (loss):</b>			
Net actuarial loss arising during the year <sup>(a)</sup>	<u>(20,322,968)</u>	<u>(1,359,518)</u>	<u>(21,682,486)</u>
Other comprehensive income before reclassifications	<u>(20,322,968)</u>	<u>(1,359,518)</u>	<u>(21,682,486)</u>
Amortization of prior service (credit) costs <sup>(a)(b)</sup>	154,486	(15,877)	138,609
Amortization of net actuarial loss <sup>(a)(b)</sup>	<u>2,628,974</u>	<u>227,682</u>	<u>2,856,656</u>
Amounts reclassified from accumulated other comprehensive income	<u>2,783,460</u>	<u>211,805</u>	<u>2,995,265</u>
Change in accumulated other comprehensive income (loss)	<u>(17,539,508)</u>	<u>(1,147,713)</u>	<u>(18,687,221)</u>
Balance – December 31, 2017	<u>\$ (46,147,220)</u>	<u>\$ (3,958,118)</u>	<u>\$ (50,105,338)</u>

<sup>(a)</sup> These components of accumulated other comprehensive income are included in the computation of net periodic pension cost (see Notes 6 and 7 for additional details).

<sup>(b)</sup> These components of accumulated other comprehensive income are reflected in the “Retirement, insurance, and benefits” line on the Statements of Operations.

**(10) Selected Transactions with the Reserve Banks**

The Board performs certain functions for the Reserve Banks in conjunction with its responsibilities for the System, and the Reserve Banks provide certain administrative functions for the Board. The Board assesses the Reserve Banks for its operations, to include expenses related to its currency responsibilities, as well as for the funding the Board is required to provide to the Bureau. Activity related to the Board and Reserve Banks is summarized in the following table:

	2017	2016
<b>For the years ended December 31:</b>		
<b>Assessments levied or to be levied on Reserve Banks for:</b>		
Currency expenses	\$ 723,622,661	\$ 700,713,295
Board operations	740,000,000	709,000,000
Transfers of funds to the Bureau	<u>573,000,000</u>	<u>596,200,000</u>
Total assessments levied or to be levied on Reserve Banks	<u>\$ 2,036,622,661</u>	<u>\$ 2,005,913,295</u>
<b>Reserve Bank costs charged to the Board:</b>		
Data processing and communication	\$ 442,644	\$ 643,975
Data center	1,009,016	841,574
Office space	405,680	1,348,018
Contingency site	<u>1,387,850</u>	<u>1,475,701</u>
Total Reserve Bank costs charged to the Board	<u>\$ 3,245,190</u>	<u>\$ 4,309,268</u>
<b>As of December 31:</b>		
Accounts receivable due from the Reserve Banks	\$ 451,615	\$ 343,483
Accounts payable due to the Reserve Banks	\$ 250,896	\$ 1,169,205

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 OEB administers certain System benefit plans on behalf of the Board and the Reserve Banks, and costs associated with the OEB's activities are assessed to the Board and Reserve Banks. The Board was assessed \$2,733,000 and \$2,471,000 for the years ended December 31, 2017 and 2016, respectively. Activity related to the Board and the OEB is summarized in the following table:

	2017	2016
<b>As of December 31:</b>		
Accounts receivable due from the Office of Employee Benefits	\$ 603,452	\$ 897,363
Accounts payable due to the Office of Employee Benefits	\$ 121,184	\$ -

**(11) Federal Financial Institutions Examination Council**

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

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

	2017	2016
<b>For the years ended December 31:</b>		
<b>Council expenses charged to the Board:</b>		
Assessments for operating expenses	\$ 227,699	\$ 212,600
Examiner education expenses	1,498,404	1,466,842
Central Data Repository	1,026,645	1,028,560
Home Mortgage Disclosure Act/Community Reinvestment Act	1,214,328	613,524
Uniform Bank Performance Report	<u>212,501</u>	<u>177,662</u>
Total Council expenses charged to the Board	<u>\$4,179,577</u>	<u>\$3,499,188</u>
<b>Board expenses charged to the Council:</b>		
Data processing related services	\$2,383,378	\$3,249,186
Other administrative services	<u>607,200</u>	<u>552,000</u>
Total Board expenses charged to the Council	<u>\$2,990,578</u>	<u>\$3,801,186</u>
<b>As of December 31:</b>		
Accounts receivable due from the Council	\$ 499,302	\$ 185,341
Accounts payable due to the Council	\$ 184,197	\$ 98,233

**(12) The Bureau of Consumer Financial Protection**

Beginning July 2011, section 1017 of the Dodd-Frank Act requires the Board to fund the Bureau from the combined earnings of the System, in an amount determined by the Director of the Bureau to be reasonably necessary to carry out the authorities of the Bureau under federal consumer financial law, taking into account such other sums made available to the Bureau from the preceding year (or quarter of such year). The Dodd-Frank Act limits the amount to be transferred each fiscal year to a fixed percentage of the System’s total operating expenses. The Bureau transfers funds to the Board to fund their share of OIG operations. The Board recorded revenue of \$12,500,000 and \$12,900,000 during calendar years 2017 and 2016 related to OIG funding.

**(13) Currency Costs**

The Bureau of Engraving and Printing (BEP) is the sole supplier for currency printing and also provides currency retirement, new BEP facility, and meaningful access services. The Board contracts for other services associated with currency, such as shipping, education, and quality assurance.

The currency costs incurred by the Board for the years ended December 31, 2017 and 2016, are reflected in the following table:

	2017	2016
<b>Costs related to BEP:</b>		
Printing	\$ 673,936,234	\$ 659,958,550
Retirement	3,568,867	3,819,263
Meaningful access program	1,425,853	1,685,269
New facility	<u>682,981</u>	<u>63,025</u>
Subtotal related to BEP	<u>\$ 679,613,935</u>	<u>\$ 665,526,107</u>
<b>Other currency costs:</b>		
Shipping	\$ 21,710,886	\$ 20,404,946
Research and development	6,831,283	5,215,244
Quality assurance services	13,117,081	8,630,562
Education services	<u>2,349,476</u>	<u>936,436</u>
Subtotal of other currency costs	<u>\$ 44,008,726</u>	<u>\$ 35,187,188</u>
Total currency costs	<u>\$ 723,622,661</u>	<u>\$ 700,713,295</u>

**(14) Commitments and Contingencies**

**Commitments** — The Board has entered into an agreement with the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, through the Council, to fund a portion of the enhancements and maintenance fees for a central data repository project that requires maintenance through 2020 which includes option periods.

In late 2015, the Board entered into an agreement with the other Council members to fund the development of a new Home Mortgage Disclosure Act processing system by the Bureau.

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

**(15) Subsequent Events**

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2017. Subsequent events were evaluated through March 5, 2018, which is the date the financial statements were available to be issued.

\* \* \* \* \*



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**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

To the Board of Governors of the Federal Reserve System:

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Board of Governors of the Federal Reserve System (the "Board"), which comprise the balance sheet as of December 31, 2017, and the related statements of operations and cash flows for the year then ended, and the related notes to the financial statements. We have issued our report thereon dated March 5, 2018.

**Compliance and Other Matters**

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

**Purpose of this Report**

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

**KPMG LLP**

Washington, District of Columbia  
March 5, 2018