OFFICE OF INSPECTOR GENERAL

March 8, 2016

2016-FMIC-B-004

Board of Governors of the Federal Reserve System Financial Statements as of and for the Years Ended December 31, 2015 and 2014, and Independent Auditors' Reports

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

March 8, 2016

MEMORANDUM

TO: Board of Governors

FROM: Mark Bialek
Inspector General

SUBJECT: 2015 Audit of the Board's Financial Statements and Internal Control Over Financial Reporting

This memorandum transmits the Independent Auditors' Report, prepared by KPMG LLP (KPMG) 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. The Office of Inspector General contracted with KPMG to audit the financial statements of the Board as of and for the year ended December 31, 2015, and to audit the Board's internal control over financial reporting as of December 31, 2015. The accompanying financial statements as of and for the year ended December 31, 2014, were audited by a different independent audit firm.

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.

The Office of Inspector General reviews and monitors 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 7, 2016.

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: Scott Alvarez, General Counsel, Legal Division
Michell Clark, Director, Management Division
Donald Hammond, Chief Operating Officer, Office of the Chief Operating Officer
William Mitchell, Chief Financial Officer and Director, Division of Financial Management
Sharon Mowry, Chief Information Officer and Director, Division of Information Technology
Michelle Smith, Assistant to the Board, Chief of Staff, and Director, Office of Board Members

Board of Governors of the Federal Reserve System

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

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

March 7, 2016

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, 2015 and 2014, 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 William L. Mitchell
William L. Mitchell
Chief Financial Officer

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

Independent Auditors' Report

To the Board of Governors of the Federal Reserve System:

We have audited the accompanying balance sheet of the Board of Governors of the Federal Reserve System (the "Board") as of December 31, 2015, and the related statements of operations and cash flows for the year then ended. We also have audited the Board's internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 over Financial Reporting. 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 audit. The accompanying financial statements of the Board as of December 31, 2014 and for the year then ended were audited by other auditors whose report thereon dated March 12, 2015, expressed an unmodified opinion on those statements.

We conducted our audit of the financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("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. We conducted our audit of internal control over financial reporting in accordance with the auditing standards of the PCAOB and in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. 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 audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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.

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, 2015, and the results of its operations and its cash flows for the year 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, 2015, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 7, 2016 on our tests of the Board's compliance with certain provisions of laws, regulations, contracts, 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* in considering the Board's compliance.

KPMG LLP

Washington, DC
March 7, 2016

Board of Governors of the Federal Reserve System Balance Sheets

	As of December 31,	
	2015	2014
Assets		
Current assets:		
Cash	$ 121,678,242	$ 69,243,271
Accounts receivable – net	3,032,839	4,800,677
Prepaid expenses and other assets	5,261,594	7,043,863
Total current assets	129,972,675	81,087,811
Noncurrent assets:		
Property, equipment, and software – net	259,267,021	256,324,432
Other assets	1,184,136	1,484,570
Total noncurrent assets	260,451,157	257,809,002
Total	$ 390,423,832	$ 338,896,813
Liabilities and cumulative results of operations		
Current liabilities:		
Accounts payable and accrued liabilities	$ 16,314,721	$ 27,455,677
Accrued payroll and related taxes	29,000,736	22,699,129
Accrued annual leave	36,796,477	34,266,939
Capital lease payable	155,241	323,306
Unearned revenues and other liabilities	2,477,966	1,977,674
Total current liabilities	84,745,141	86,722,725
Long-term liabilities:		
Capital lease payable	-	92,204
Retirement benefit obligation	54,691,940	45,461,450
Postretirement benefit obligation	13,291,034	12,969,115
Postemployment benefit obligation	8,620,208	8,850,310
Deferred rent	40,315,439	40,151,309
Other liabilities	-	253,938
Total long-term liabilities	116,918,621	107,778,326
Total liabilities	201,663,762	194,501,051
Cumulative results of operations:		
Fund balance	209,353,299	163,920,431
Accumulated other comprehensive loss	(20,593,229)	(19,524,669)
Total cumulative results of operations	188,760,070	144,395,762
Total	$ 390,423,832	$ 338,896,813

See notes to financial statements.

Board of Governors of the Federal Reserve System Statements of Operations

	For the years ended December 31,	
	2015	2014
Board operating revenues:		
Assessments levied on Federal Reserve Banks for Board operating expenses and capital expenditures	$ 705,000,000	$ 590,000,000
Other revenues	19,139,153	17,757,157
Total operating revenues	724,139,153	607,757,157
Board operating expenses:		
Salaries	385,055,415	351,495,519
Retirement, insurance, and benefits	88,462,323	78,111,357
Contractual services and professional fees	49,570,438	45,252,522
Depreciation, amortization, and net gains or losses on disposals	41,343,515	25,411,096
Travel	16,793,617	15,467,118
Non-capital furniture and equipment, postage, supplies	12,458,662	12,010,066
Data, news, and research	16,839,166	12,755,928
Utilities	10,232,994	10,511,203
Software	14,606,064	13,532,082
Rentals of space	25,227,322	16,518,231
Repairs and maintenance	6,923,745	6,504,496
Other expenses	11,193,024	9,883,686
Total operating expenses	678,706,285	597,453,304
Net income	45,432,868	10,303,853
Currency costs:		
Assessments levied or to be levied on Federal Reserve Banks for currency costs	689,198,549	707,402,059
Expenses for costs related to currency	689,198,549	707,402,059
Currency assessments over (under) expenses	-	-
Bureau of Consumer Financial Protection (Bureau):		
Assessments levied on the Federal Reserve Banks for the Bureau	489,700,000	563,000,000
Transfers to the Bureau	489,700,000	563,000,000
Bureau assessments over (under) transfers	-	-
Office of Financial Research (Office):		
Assessments transferred to the Federal Reserve Banks for the Office	-	1,512,822
Transfers from the Office	-	1,512,822
Office assessments over (under) transfers	-	-
Total net income	45,432,868	10,303,853

See notes to financial statements.

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

	For the years ended December 31,	
	2015	2014
Other comprehensive income:		
Pension and other postretirement benefit plans:		
Amortization of prior service cost	$ 605,483	605,483
Amortization of net actuarial loss	2,046,251	481,850
Net actuarial loss arising during the year	(3,720,294)	(13,361,050)
Total other comprehensive loss	(1,068,560)	(12,273,717)
Comprehensive income (loss)	44,364,308	(1,969,864)
Cumulative results of operations – beginning of year	144,395,762	146,365,626
Cumulative results of operations – end of year	$ 188,760,070	$ 144,395,762

See notes to financial statements.

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

	For the years ended December 31,	
	2015	2014
Cash flows from operating activities:		
Net income	$ 45,432,868	$ 10,303,853
Adjustments to reconcile results of operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	34,688,752	25,132,858
Net loss on disposal of property and equipment	6,654,763	278,238
Other additional non-cash adjustments to results of operations	(237,927)	(308,326)
(Increase) decrease in assets:		
Accounts receivable	1,767,837	3,110,335
Prepaid expenses	1,782,269	(2,446,206)
Other assets	300,434	498,795
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(3,089,920)	(770,233)
Accrued payroll and related taxes	6,301,607	(2,406,461)
Accrued annual leave	2,529,538	2,978,502
Unearned revenues and other liabilities	500,292	(531,528)
Net retirement benefit obligation	8,292,457	4,326,019
Net postretirement benefit obligation	191,392	406,819
Net postemployment benefit obligation	(230,102)	359,389
Deferred Rent	(1,316,365)	539,410
Other long-term liabilities	(253,938)	(24,045)
Net cash provided by operating activities	103,313,957	41,447,419
Cash flows from investing activities:		
Capital expenditures	(50,591,423)	(62,703,485)
Net cash used in investing activities	(50,591,423)	(62,703,485)
Cash flows from financing activities:		
Capital lease payments	(287,563)	(351,980)
Net cash used in financing activities	(287,563)	(351,980)
Net increase (decrease) in cash	52,434,971	(21,608,046)
Cash balance – beginning of year	69,243,271	90,851,317
Cash balance – end of year	$121,678,242	$ 69,243,271

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, 2015 and 2014

(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, 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. 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 (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 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 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. 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 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.

(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. 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 Supervision and Regulation (S&R) — 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 a collecting entity, the Board does not recognize the S&R assessments as revenue nor does the Board use the collections to fund Board expenses; the funds are transferred to the Treasury.

System Earning Remittances to the 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 United States Treasury (Treasury) via the Board. As an intermediary transfer agent, the Board does not recognize the remittances as revenue nor does the Board use the remittances to fund Board expenses. Additional information and disclosures regarding these remittances to the Treasury can be found in the combined financial statements of the Federal Reserve Banks.

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 Federal Emergency Management Agency (FEMA). As a collecting entity, 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. 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 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. The Board recognizes the assessment in the period in which it is assessed. These expenses and assessments are reported separately from the Board's operating activities in the Board's Statements of Operations.

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 books 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.

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.

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. Significant items subject to such estimates include useful lives of property, equipment, and software; allowance for doubtful accounts receivable; accounts payable; retirement benefit obligation; postretirement benefit obligation; postemployment obligation; and commitments and contingencies.

Benefit Obligations — The Board records annual amounts relating to its pension, 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 rates. 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 to the assumptions 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.

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 April 2015, the Financial Accounting Standards Board (FASB) issued ASU 2015-05, *Intangibles - Goodwill and Other - Internal Use Software (Subtopic 350-40) - Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. This update provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. This update is effective for the Board for the year ending December 31, 2016 and is not expected to have a material effect on the Board's financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* 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. In August 2015, the FASB issued 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. This update 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 February 2016, the FASB issued 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 is continuing to evaluate the effect of this new guidance on its consolidated financial statements.

(4) Property, Equipment, and Software

The following is a summary of the components of the Board's property, equipment, and software, at cost, less accumulated depreciation and amortization as of December 31, 2015 and 2014:

	As of December 31, 2015	2014
Land	$ 18,640,314	$ 18,640,314
Buildings and improvements	300,166,433	282,596,215
Construction in process	10,920,879	12,225,222
Furniture and equipment	82,888,372	79,542,184
Software in use	40,987,546	38,309,794
Software in process	5,275,429	1,040,801
Vehicles	2,098,155	1,835,191
Subtotal	460,977,128	434,189,721
Less accumulated depreciation and amortization	(201,710,107)	(177,865,292)
Property, equipment, and software – net	$ 259,267,021	$256,324,429

Construction in process include costs incurred in the current or prior years for long-term projects and building enhancements. In 2015, the Board recognized a loss of $6 million related to changes in an ongoing capital project; the loss is reflected on the Statement of Operations and the Statement of Cash Flows.

(5) Leases

Capital Leases — The Board entered into capital leases for copier equipment in 2012; the lease terms extend through 2016. In 2014, the Board terminated a portion of those leases of $313,000, which is a non-cash event excluded from the Statements of Cash Flows. Furniture and equipment includes capitalized leases of $1,258,000 as of 2015 and 2014. Accumulated depreciation includes $1,170,000 and $855,000 related to assets under capital leases as of 2015 and 2014, respectively. The depreciation expense for leased equipment is $315,000 and $339,000 for 2015 and 2014, 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, 2015, are as follows:

Year Ended December 31,	Amount
2016	197,004
Total minimum lease payments	197,004
Less amount representing maintenance	(41,428)
Net minimum lease payments	155,576
Less amount representing interest	(335)
Present value of net minimum lease payments	155,241
Less current maturities of capital lease payments	(155,241)
Long-term capital lease obligations	$ -

Operating Leases — The Board has entered into operating leases to secure office, training, data center, and warehouse space. Several of the leases are with Reserve Banks and other governmental agencies. Minimum annual payments under the multiyear operating leases having an initial or remaining noncancelable lease term in excess of one year at December 31, 2015, are as follows:

Years Ended December 31,	
2016	$ 27,324,938
2017	28,323,075
2018	29,002,059
2019	28,358,534
After 2019	95,014,040
	$ 208,022,646

Rental expenses under the multiyear operating leases were $24,291,000 and $15,854,000 for the years ended December 31, 2015 and 2014, respectively.

Deferred Rent —The Board recorded non-cash lease incentives of $1,480,000 and $17,829,000 for the years ended December 31, 2015 and 2014, 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 were not redistributed to the Board during the years ended December 31, 2015 and 2014.

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 $480 million during each of the years ended December 31, 2015 and 2014. The Board was not assessed a contribution for 2015 or 2014.

In October 2014, the Society of Actuaries released new mortality tables (RP-2014) and in October 2015 and 2014 released new mortality projection scales (MP-2015 and MP-2014, respectively) for use in valuations of benefits liabilities. The Board adopted the new RP-2014 mortality tables and MP-2014 mortality projection scales, adjusted based on the System’s recent mortality experience and retirement rates of System retirees, which included the Board’s workforce.

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, 2015 and 2014, is summarized in the following tables:

	2015	2014
Change in projected benefit obligation:		
Benefit obligation – beginning of year	$ 20,727,400	$ 12,673,892
Service cost	2,409,059	1,125,134
Interest cost	1,245,933	705,339
Plan participants' contributions	-	-
Actuarial loss	3,653,624	6,238,231
Gross benefits paid	(40,388)	(15,196)
Benefit obligation – end of year	$ 27,995,628	$ 20,727,400
Accumulated benefit obligation – end of year	$ 3,651,148	$ 2,327,825
Weighted-average assumptions used to determine benefit obligation as of December 31:		
Discount rate	4.67 %	4.25 %
Rate of compensation increase	4.00 %	4.00 %
Change in plan assets:		
Fair value of plan assets – beginning of year	$ -	$ -
Employer contributions	40,388	15,196
Plan participants' contributions	-	-
Gross benefits paid	(40,388)	(15,196)
Fair value of plan assets – end of year	$ -	$ -
Funded status:		
Reconciliation of funded status – end of year:		
Fair value of plan assets	$ -	$ -
Benefit obligation (current)	55,947	31,281
Benefit obligation (noncurrent)	27,939,681	20,696,119
Funded status	(27,995,628)	(20,727,400)
Amount recognized – end of year	$ (27,995,628)	$ (20,727,400)
Amounts recognized in the balance sheets consist of:		
Asset	$ -	$ -
Liability – current	(55,947)	(31,281)
Liability – noncurrent	(27,939,681)	(20,696,119)
Net amount recognized	$ (27,995,628)	$ (20,727,400)
Amounts recognized in accumulated other comprehensive income consist of:		
Net actuarial loss	$ 7,727,778	$ 4,769,469
Prior service cost	322,032	421,610
Net amount recognized	$ 8,049,810	$ 5,191,079

Expected cash flows:

Expected employer contributions – 2016	$ 55,947

Expected benefit payments:*

2016	$ 55,947
2017	$ 147,044
2018	$ 175,007
2019	$ 206,773
2020	$ 245,437
2021–2025	$ 2,215,387

* Expected benefit payments to be made by the Board.

	2015	2014
Components of net periodic benefit cost:		
Service cost	$ 2,409,059	$ 1,125,134
Interest cost	1,245,933	705,339
Expected return on plan assets	-	-
Amortization:		
Actuarial (gain) loss	$ 695,315	$ (65,534)
Prior service cost	99,578	99,578
Net periodic benefit cost	$ 4,449,885	$ 1,864,517
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	4.25 %	5.26 %
Rate of compensation increase	4.00 %	4.50 %
Other changes in plan assets and benefit obligations recognized in other comprehensive income:		
Current year actuarial loss	$ 3,653,624	$ 6,238,231
Amortization of prior service cost	(99,578)	(99,578)
Amortization of actuarial gain (loss)	(695,315)	65,534
Total recognized in other comprehensive loss	$ 2,858,731	$ 6,204,187
Total recognized in net periodic benefit cost and other comprehensive income	$ 7,308,616	$ 8,068,704

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in 2016 are shown below:

Net actuarial loss	$ 382,763
Prior service cost	99,578
Total	$ 482,341

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, 2015 and 2014, is summarized in the following tables:

	2015	2014
Change in projected benefit obligation:		
Benefit obligation – beginning of year	$ 24,857,488	$ 17,593,667
Service cost	1,037,235	676,722
Interest cost	1,178,955	961,720
Plan participants' contributions	-	-
Actuarial loss	22,672	5,824,802
Gross benefits paid	(220,089)	(199,423)
Benefit obligation – end of year	$ 26,876,261	$ 24,857,488
Accumulated benefit obligation – end of year	$ 21,116,567	$ 20,463,136
Weighted-average assumptions used to determine benefit obligation as of December 31:		
Discount rate	4.52 %	4.12 %
Rate of compensation increase	4.00 %	4.00 %
Change in plan assets:		
Fair value of plan assets – beginning of year	$ -	$ -
Employer contributions	220,089	199,423
Plan participants' contributions	-	-
Gross benefits paid	(220,089)	(199,423)
Fair value of plan assets – end of year	$ -	$ -
Funded status:		
Reconciliation of funded status – end of year:		
Fair value of plan assets	$ -	$ -
Benefit obligation – current	316,841	279,260
Benefit obligation – noncurrent	26,559,420	24,578,228
Funded status	(26,876,261)	(24,857,488)
Amount recognized – end of year	$ (26,876,261)	$ (24,857,488)
Amounts recognized in the balance sheets consist of:		
Asset	$ -	$ -
Liability – current	(316,841)	(279,260)
Liability – noncurrent	(26,559,420)	(24,578,228)
Net amount recognized	$ (26,876,261)	$ (24,857,488)

		2015	2014
Amounts recognized in accumulated other comprehensive income consist of:			
Net actuarial loss		$ 9,519,292	$ 10,647,540
Prior service cost		586,303	1,117,698
Net amount recognized		$ 10,105,595	$ 11,765,238
Expected cash flows:			
Expected employer contributions – 2016	$ 316,841		
Expected benefit payments:*			
2016	$ 316,841		
2017	$ 400,581		
2018	$ 501,407		
2019	$ 617,820		
2020	$ 741,206		
2021–2025	$ 5,793,388		
* Expected benefit payments to be made by the Board.			
Components of net periodic benefit cost:			
Service cost		$ 1,037,235	$ 676,722
Interest cost		1,178,955	961,720
Expected return on plan assets		-	-
Amortization:			
Actuarial loss		1,150,920	491,730
Prior service cost		531,395	531,395
Net periodic benefit cost		$ 3,898,505	$ 2,661,567
Weighted-average assumptions used to determine net periodic benefit cost:			
Discount rate		4.12 %	5.06 %
Rate of compensation increase		4.00 %	4.50 %
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Current year actuarial loss		$ 22,672	$ 5,824,802
Amortization of prior service cost		(531,395)	(531,395)
Amortization of actuarial loss		(1,150,920)	(491,730)
Total recognized in other comprehensive (income) loss		$ (1,659,643)	$ 4,801,677
Total recognized in net periodic benefit cost and other comprehensive income		$ 2,238,862	$ 7,463,244

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in 2016 are shown below:

Net actuarial loss	$ 710,100
Prior service cost	531,395
Total	$ 1,241,495

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, 2015 and 2014, is summarized in the following table:

	2015	2014
Retirement benefit obligation:		
Benefit obligation – BEP	$27,995,628	$20,727,400
Benefit obligation – PEP	26,876,261	24,857,488
Additional benefit obligations	192,839	187,103
Total accumulated retirement benefit obligation	$55,064,728	$45,771,991

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 $913,000 and $891,000 in 2015 and 2014, 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 $24,170,000 and $21,982,000 in 2015 and 2014, respectively.

(7) Postretirement Benefits

The Board provides certain life insurance programs for its active employees and retirees. Activity as of December 31, 2015 and 2014, is summarized in the following tables:

	2015	2014
Change in benefit obligation:		
Benefit obligation – beginning of year	$ 13,384,294	$ 11,693,311
Service cost	177,332	163,420
Interest cost	549,919	582,779
Plan participants' contributions	-	-
Actuarial loss	43,998	1,298,018
Gross benefits paid	(377,997)	(353,234)
Benefit obligation – end of year	$ 13,777,546	$ 13,384,294
Weighted-average assumptions used to determine benefit obligation as of December 31 – discount rate	4.41 %	4.05 %
Change in plan assets:		
Fair value of plan assets – beginning of year	$ -	$ -
Employer contributions	377,997	353,234
Gross benefits paid	(377,997)	(353,234)
Fair value of plan assets – end of year	$ -	$ -
Funded status:		
Reconciliation of funded status – end of year:		
Fair value of plan assets	$ -	$ -
Benefit obligation – current	486,512	415,179
Benefit obligation – noncurrent	13,291,034	12,969,115
Funded status	(13,777,546)	(13,384,294)
Amount recognized – end of year	$ (13,777,546)	$ (13,384,294)
Amounts recognized in the balance sheets consist of:		
Asset	$ -	$ -
Liability – current	(486,512)	(415,179)
Liability – noncurrent	(13,291,034)	(12,969,115)
Net amount recognized	$ (13,777,546)	$ (13,384,294)

		2015	2014
Amounts recognized in accumulated other comprehensive income consist of:			
Net actuarial loss		$ 2,586,908	$ 2,742,925
Prior service credit		(149,084)	(174,574)
Net amount recognized		$ 2,437,824	$ 2,568,351
Expected cash flows:			
Expected employer contributions – 2016	$ 486,512		
Expected benefit payments:*			
2016	$ 486,512		
2017	$ 515,391		
2018	$ 540,539		
2019	$ 560,776		
2020	$ 585,513		
2021–2025	$ 3,381,199		
* Expected benefit payments to be made by the Board.			
Components of net periodic benefit cost:			
Service cost		$ 177,332	$ 163,420
Interest cost		549,919	582,779
Expected return on plan assets		-	-
Amortization:			
Actuarial loss		200,016	55,654
Prior service credit		(25,490)	(25,490)
Net periodic benefit cost		$ 901,777	$ 776,363
Weighted-average assumptions used to determine net periodic benefit cost – discount rate		4.05 %	4.97 %
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Current year actuarial loss		$ 43,998	$ 1,298,017
Amortization of prior service credit		25,490	25,490
Amortization of actuarial loss		(200,016)	(55,654)
Total recognized in other comprehensive (income) loss		$ (130,528)	$ 1,267,853
Total recognized in net periodic benefit cost and other comprehensive income		$ 771,249	$ 2,044,216

Estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in 2016 are shown below:

Net actuarial loss	$ 164,632
Prior service credit	(25,490)
Total	$ 139,142

(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 2.70 percent and 2.47 percent as of December 31, 2015 and 2014, respectively. The net periodic postemployment benefit cost recognized by the Board as of December 31, 2015 and 2014, was $740,000 and $1,448,000, 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, 2015 and 2014, 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, 2014	$ (5,950,453)	$ (1,300,499)	$ (7,250,952)
Change in accumulated other comprehensive income (loss):			
Net actuarial loss arising during the year	(12,063,033)	(1,298,017)	(13,361,050)
Other comprehensive income before reclassifications	(12,063,033)	(1,298,017)	(13,361,050)
Amortization of prior service (credit) costs[a][b]	630,973	(25,490)	605,483
Amortization of net actuarial loss[a][b]	426,196	55,654	481,850
Amounts reclassified from accumulated other comprehensive income	1,057,169	30,164	1,087,333
Change in accumulated other comprehensive loss	(11,005,864)	(1,267,853)	(12,273,717)
Balance – December 31, 2014	(16,956,317)	(2,568,352)	(19,524,669)
Change in accumulated other comprehensive income (loss):			
Net actuarial loss arising during the year[a]	(3,676,296)	(43,998)	(3,720,294)
Other comprehensive income before reclassifications	(3,676,296)	(43,998)	(3,720,294)
Amortization of prior service (credit) costs[a][b]	630,973	(25,490)	605,483
Amortization of net actuarial loss[a][b]	1,846,235	200,016	2,046,251
Amounts reclassified from accumulated other comprehensive income	2,477,208	174,526	2,651,734
Change in accumulated other comprehensive income (loss)	(1,199,088)	130,528	(1,068,560)
Balance – December 31, 2015	$ (18,155,405)	$ (2,437,824)	$ (20,593,229)

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

[b] These components of accumulated other comprehensive income are reflected in the "Retirement, insurance, and benefits" line on the Statements of Operations.

(10) Selected Transactions with the Reserve Banks

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

	2015	2014
For the years ended December 31:		
Assessments levied or to be levied on Reserve Banks for:		
Currency expenses	$ 689,198,549	$ 707,402,059
Board operations	705,000,000	590,000,000
Transfers of funds to the Bureau	489,700,000	563,000,000
Total assessments levied or to be levied on Reserve Banks	$ 1,883,898,549	$ 1,860,402,059
Funds returned from the Office and transferred to the Reserve Banks	$ -	$ 1,512,822
Board expenses charged to the Reserve Banks for data processing and office space	$ 326,953	$ 364,165
Reserve Bank expenses charged to the Board:		
Data processing and communication	$ 1,226,875	$ 1,250,884
Data center	858,985	$ 412,365
Office space	206,167	468,463
Contingency site	1,281,688	1,247,766
Total Reserve Bank expenses charged to the Board	$ 3,573,715	$ 3,379,478
As of December 31:		
Accounts receivable due from the Reserve Banks	$ 283,072	$ 495,018
Accounts payable due to the Reserve Banks	$ 356,937	$ 415,314

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 $39,000 in audit services and recorded net receivables of $39,000 December 31, 2014. The Board did not have accrued liabilities in audit services or recorded net receivables as of December 31, 2015.

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 $2,615,000 and $2,503,000 for the years ended December 31, 2015 and 2014, respectively. Activity related to the Board and the OEB is summarized in the following table:

	2015	2014
As of December 31:		
Accounts receivable due from the Office of Employee Benefits	$ 1,068,126	$ 1,338,349
Accounts payable due to the Office of Employee Benefits	$ 110,659	$ 79,528

(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 administrative 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:

	2015	2014
For the years ended December 31:		
Council expenses charged to the Board:		
Assessments for operating expenses	$ 163,987	$ 154,633
Assessments for examiner education	1,228,101	1,047,803
Central Data Repository	1,049,087	1,197,920
Home Mortgage Disclosure Act/Community Reinvestment Act	874,584	882,464
Uniform Bank Performance Report	211,247	224,797
Total Council expenses charged to the Board	$3,527,006	$3,507,617
Board expenses charged to the Council:		
Data processing related services	$3,997,421	$4,611,282
Other administrative services	303,000	245,000
Total Board expenses charged to the Council	$4,300,421	$4,856,282
As of December 31:		
Accounts receivable due from the Council	$ 223,553	$ 221,749
Accounts payable due to the Council	$ 297,539	$ 132,125

(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, in turn, transfers funds to the Board to fund their share of OIG operations. These transactions resulted in net amounts to the Bureau of $12,900,000 and $11,000,000 during calendar years 2015 and 2014, respectively.

(13) The Office of Financial Research

Section 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. Over the two-year period, the Board provided $91,515,944 to cover the Office's expenses. In 2012, based on its review of actual expenditures and accruals through the end of the two-year period, the Office determined that $39,921,702 should be returned to the Board; the Board subsequently received and returned that amount to the Reserve Banks. At that time, the Office noted that an additional adjustment may be needed based upon the actual expenses incurred for work under the Dodd-Frank Act. In 2014, the Office performed its final review and determined that an additional $1,512,822 should be returned to the Board. That amount was returned to the Board and transferred to the Reserve Banks in September 2014 and no further financial activity is expected.

(14) Currency Costs

The Bureau of Engraving and Printing (BEP) is the sole supplier for currency printing and also provides currency retirement and meaningful access services. The Board provides or 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, 2015 and 2014, are reflected in the following table:

	2015	2014
Expenses related to BEP services:		
Printing	$ 637,346,480	$ 656,810,224
Retirement	3,922,414	3,500,408
Meaningful access program	2,679,698	808,017
Subtotal related to BEP services	$ 643,948,592	$ 661,118,649
Other currency expenses:		
Shipping	$ 23,357,229	$ 27,460,180
Research and development	4,988,654	5,096,781
Quality assurance services	14,575,554	11,690,796
Education services	2,328,520	2,035,653
Subtotal other currency expenses	$ 45,249,957	$ 46,283,410
Total currency expenses	$ 689,198,549	$ 707,402,059

(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 2019 and one two-year option period. The estimated Board expense to support this effort is $5 million.

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, 2015. Subsequent events were evaluated through March 7, 2016 which is the date the financial statements were available to be issued.

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

To the Board of Governors of the Federal Reserve System:

We have audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Board of Governors of the Federal Reserve System (the "Board"), which comprise the balance sheet as of December 31, 2015, 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 7, 2016.

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.*

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 those specified parties.

KPMG LLP

March 7, 2016