2021-FMIC-B-005
March 10, 2021



# Board of Governors of the Federal Reserve System Financial Statements as of and for the Years Ended December 31, 2020 and 2019, and Independent Auditors' Reports

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

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

# MEMORANDUM

DATE: March 10, 2021

TO: Board of Governors

FROM: Mark Bialek Fred Gibbs for
Inspector General

SUBJECT: 2020 Audit of the Board's Financial Statements and Internal Control Over Financial Reporting

This memorandum transmits the *Independent Auditors' Report* and *Report on Compliance and Other Matters* (Independent Auditors' Reports), prepared by KPMG LLP, on the Board of Governors of the Federal Reserve System's financial statements and internal control over financial reporting. We contracted with KPMG to audit the financial statements of the Board as of and for the years ended December 31, 2020 and 2019, and to audit the Board's internal control over financial reporting as of December 31, 2020.

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

We reviewed and monitored the work of KPMG to ensure compliance with the contract. KPMG is responsible for the accompanying Independent Auditors' Reports, both dated March 10, 2021.

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 Independent Auditors' Reports.

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

# Board of Governors of the Federal Reserve System

Financial Statements as of and for the
Years Ended December 31, 2020 and 2019,
and Independent Auditors' Reports

# BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

## TABLE OF CONTENTS


| | Page |
|---|---|
| MANAGEMENT'S REPORT ON FINANCIAL STATEMENTS AND INTERNAL CONTROL OVER FINANCIAL REPORTING | 1 |
| INDEPENDENT AUDITORS' REPORT | 2-4 |
| FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019: | |
| Balance Sheets | 5 |
| Statements of Operations | 6-7 |
| Statements of Cash Flows | 8 |
| Notes to Financial Statements | 9-29 |
| INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* | 30 |

**March 10, 2021**

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

To the Committee on Board Affairs:

The management of the Board of Governors of the Federal Reserve System (the Board) is responsible for the preparation and fair presentation of the balance sheets as of December 31, 2020 and 2019, and the statements of operations and cash flows for the years then ended (the financial statements). The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, and, as such, include some amounts that are based on management judgments and estimates. To our knowledge, the financial statements are, in all material respects, fairly presented in conformity with generally accepted accounting principles and include all disclosures necessary for such fair presentation.

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

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

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

by PATRICK MCCLANAHAN Digitally signed by PATRICK MCCLANAHAN Date: 2021.03.10 06:59:19 -05'00'
Pat McClanahan
Chief Operating Officer

by RICARDO AGUILERA Digitally signed by RICARDO AGUILERA Date: 2021.03.10 08:37:46 -05'00'
Ricardo A. Aguilera
Chief Financial Officer

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

## Report of Independent Registered Public Accounting Firm

To the Board of Governors of the Federal Reserve System:

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

We have audited the accompanying balance sheets of Board of Governors of the Federal Reserve System (the Board) as of December 31, 2020 and 2019, the related statements of operations and cash flows for each of the years then ended, and the related notes (collectively, the financial statements). We also have audited the Board's internal control over financial reporting as of December 31, 2020, 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, 2020 and 2019, and the results of its operations and its cash flows for each of the years then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the Board maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020 based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

*Change in Accounting Principle*

As discussed in Note 3 to the financial statements, the Board has changed its method of accounting for leases as of January 1, 2020 due to the adoption of Accounting Standards Codification Topic 842, *Leases*, and the related amendments. Our opinion is not modified with respect to this matter.

*Basis for Opinions*

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

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

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

*Definition and Limitations of Internal Control Over Financial Reporting*

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

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

*Critical Audit Matter*

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the Committee on Board Affairs and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

*Valuation of Retirement and Postretirement Benefit Obligations*

As discussed in Notes 6 and 7 to the financial statements, the Board records retirement benefits under the Benefits Equalization Plan (BEP) and the Pension Enhancement Plan (PEP), which are non-qualified plans for its employees and records postretirement benefits related to its life insurance programs for active employees and retirees. The calculations of the obligations of these plans incorporate various actuarial and other assumptions, including discount rates, mortality, compensation increases, and health-care cost trends. As of December 31, 2020, the Board had $229,843,898 and $19,642,733 of retirement and postretirement benefit obligations, respectively.

We identified the evaluation of the BEP, PEP, and postretirement benefit obligations as a critical audit matter. A high degree of subjective auditor judgment was required as the assessment of the BEP, PEP, and postretirement benefit obligations involved the evaluation of complex actuarial models and the key assumptions used in such models, including the (1) discount rates, (2) mortality tables, (3) compensation increases, and (4) health-care cost trends. Changes in these key assumptions could have a significant change on the measurement of these benefit obligations.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the retirement and postretirement benefit obligation processes. This included certain controls related to the Board's development of the actuarial models and the key assumptions noted above. We involved actuarial professionals with specialized skills and knowledge, who assisted the engagement team in:

- assessing the appropriateness of (1) the actuarial models used by the Board when compared to the Board's plans and (2) changes to the models from the prior year
- evaluating the discount rates used in the valuation by comparing the inputs in the discount rates to publicly available data and assessing the resulting discount rates
- evaluating the assumptions related to mortality tables, compensation increases, and health-care cost trends used in the valuation by comparing the assumptions to publicly available data.

*Other Reporting Required by* Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 10, 2021 on our tests of the Board's compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's compliance.

KPMG LLP

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

Washington, District of Columbia
March 10, 2021

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

| | As of December 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Assets** | | |
| **Current assets:** | | |
| Cash | $ 244,374,728 | $ 138,288,171 |
| Accounts receivable – net | 1,889,939 | 2,865,097 |
| Prepaid expenses and other assets | 11,804,568 | 7,512,704 |
| Total current assets | 258,069,235 | 148,665,972 |
| **Noncurrent assets:** | | |
| Property, equipment, and software – net | 549,940,393 | 438,880,709 |
| Operating lease right-of-use assets | 214,941,299 | - |
| Other assets | 2,264,364 | 1,001,219 |
| Total noncurrent assets | 767,146,056 | 439,881,928 |
| Total assets | $ 1,025,215,291 | $ 588,547,900 |
| **Liabilities and cumulative results of operations** | | |
| **Current liabilities:** | | |
| Accounts payable and accrued liabilities | $ 117,820,905 | $ 35,611,343 |
| Accrued payroll and related taxes | 54,187,697 | 47,187,316 |
| Accrued annual leave | 59,025,107 | 45,480,622 |
| Financing lease payable | 19,725 | 51,075 |
| Operating lease payable | 36,918,219 | - |
| Unearned revenues and other liabilities | 15,910,243 | 2,735,683 |
| Total current liabilities | 283,881,896 | 131,066,039 |
| **Long-term liabilities:** | | |
| Financing lease payable | 15,047 | 34,772 |
| Retirement benefit obligation | 228,609,558 | 147,322,696 |
| Postretirement benefit obligation | 19,001,635 | 17,033,607 |
| Postemployment benefit obligation | 6,166,426 | 6,263,937 |
| Operating lease payable and deferred rent | 211,495,295 | 37,526,642 |
| Other liabilities | 226,079 | 13,783,339 |
| Total long-term liabilities | 465,514,040 | 221,964,993 |
| Total liabilities | 749,395,936 | 353,031,032 |
| **Cumulative results of operations:** | | |
| Fund balance | 405,923,494 | 301,785,243 |
| Accumulated other comprehensive loss | (130,104,139) | (66,268,375) |
| Total cumulative results of operations | 275,819,355 | 235,516,868 |
| Total liabilities and cumulative results of operations | $ 1,025,215,291 | $ 588,547,900 |

See notes to financial statements.

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

| | For the years ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Board operating revenues:** | | |
| Assessments levied on Federal Reserve Banks for Board operating expenses and capital expenditures | $ 947,000,000 | $ 814,000,000 |
| Assessments levied on Federal Reserve Banks for currency-related operating expenses and capital expenditures | 47,813,182 | 41,131,566 |
| Other revenues | 17,219,860 | 14,849,238 |
| Total operating revenues | 1,012,033,042 | 869,980,804 |
| **Board operating expenses:** | | |
| Salaries | 515,187,686 | 477,591,070 |
| Retirement, insurance, and benefits | 112,663,448 | 105,724,350 |
| Other components of net periodic pension and postretirement costs | 11,793,597 | 8,842,759 |
| Contractual services and professional fees | 70,860,330 | 66,347,556 |
| Depreciation, amortization, and net gains or losses on disposals | 47,805,194 | 43,569,379 |
| Travel | 4,768,759 | 15,563,188 |
| Non-capital furniture, equipment, postage, and supplies | 34,075,082 | 26,403,606 |
| Data, news, and research | 15,153,331 | 31,089,930 |
| Utilities | 9,727,683 | 8,103,826 |
| Software | 21,370,826 | 19,221,088 |
| Rentals of space and equipment | 37,367,520 | 37,274,413 |
| Repairs and maintenance | 9,345,818 | 9,617,548 |
| Other expenses | 17,775,517 | 19,711,728 |
| Total operating expenses | 907,894,791 | 869,060,441 |
| Net income | 104,138,251 | 920,363 |
| **Currency costs:** | | |
| Assessments levied or to be levied on Federal Reserve Banks for currency costs | 783,385,287 | 795,861,583 |
| Expenses for costs related to currency | 783,385,287 | 795,861,583 |
| Currency assessments over (under) expenses | - | - |
| **Bureau of Consumer Financial Protection (Bureau):** | | |
| Assessments levied on the Federal Reserve Banks for the Bureau | 517,300,000 | 518,600,000 |
| Transfers to the Bureau | 517,300,000 | 518,600,000 |
| Bureau assessments over (under) transfers | - | - |
| Total net income | $ 104,138,251 | $ 920,363 |

See notes to financial statements.

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

| | For the years ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Other comprehensive income (loss):** | | |
| Pension and other postretirement benefit plans: | | |
| Amortization of prior service (credit) cost | $ (9,599) | $ 30,090 |
| Amortization of net actuarial (gain) loss | 5,334,672 | 2,869,750 |
| Net actuarial gain (loss) arising during the year | (69,160,837) | (31,543,270) |
| Total other comprehensive income (loss) | (63,835,764) | (28,643,430) |
| Comprehensive income (loss) | 40,302,487 | (27,723,067) |
| Cumulative results of operations – beginning of period | 235,516,868 | 263,239,935 |
| Cumulative results of operations – end of period | $ 275,819,355 | $ 235,516,868 |

See notes to financial statements.

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

| | For the years ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Cash flows from operating activities:** | | |
| Net income | $ 104,138,251 | $ 920,363 |
| **Adjustments to reconcile results of operations to net cash from (used in) operating activities:** | | |
| Depreciation and amortization | 45,655,570 | 43,301,623 |
| Net loss (gain) on disposal of property and equipment | 2,149,624 | 267,757 |
| Other additional noncash adjustments to results of operations | (24,733) | (199,447) |
| **(Increase) decrease in assets:** | | |
| Accounts receivable | 975,158 | (724,831) |
| Prepaid expenses | (4,291,864) | (909,932) |
| Other assets | (1,263,145) | (246,810) |
| **Increase (decrease) in liabilities:** | | |
| Accounts payable and accrued liabilities | 63,435,161 | 2,640,518 |
| Accrued payroll and related taxes | 7,000,381 | 5,515,761 |
| Accrued annual leave | 13,544,485 | 2,339,127 |
| Unearned revenues and other liabilities | 16,044 | 137,059 |
| Operating lease payable (current portion) | 36,918,219 | - |
| Net retirement benefit obligation | 16,195,548 | 13,921,477 |
| Net postretirement benefit obligation | 3,223,578 | 506,414 |
| Net postemployment benefit obligation | (97,511) | 134,647 |
| Operating lease payable (non-current portion) and deferred rent | (61,325,044) | (5,530,000) |
| Other long-term liabilities | 9,546 | - |
| Net cash from (used in) operating activities | 226,259,268 | 62,073,726 |
| **Cash flows used in investing activities:** | | |
| Capital expenditures | (120,129,500) | (138,811,076) |
| Net cash from (used in) investing activities | (120,129,500) | (138,811,076) |
| **Cash flows used in financing activities:** | | |
| Financing lease payments | (43,211) | (62,333) |
| Net cash from (used in) financing activities | (43,211) | (62,333) |
| Net increase (decrease) in cash | 106,086,557 | (76,799,683) |
| Cash balance – beginning of year | 138,288,171 | 215,087,854 |
| Cash balance – end of year | $ 244,374,728 | $ 138,288,171 |

See notes to financial statements.

## (1) Structure

The Federal Reserve System (the System) was established by Congress in 1913 and consists of the Board of Governors (the Board), the Federal Open Market Committee (FOMC), the twelve regional Federal Reserve Banks (Reserve Banks), the Federal Advisory Council, and the private commercial banks that are members of the System. The Board, unlike the Reserve Banks, was established as a federal government agency and is located in Washington, D.C. The Federal Reserve System uses advisory and working committees in carrying out its varied responsibilities. Five of these committees advise the Board: the Community Advisory Council, the Community Depository Institutions Advisory Council, the Federal Advisory Council, the Insurance Policy Advisory Committee, and the Model Validation Council. The Federal Advisory Council and the Insurance Policy Advisory Committee were established by law. The Community Advisory Council, the Community Depository Institutions Advisory Council, and the Model Validation Council were created by the Board.

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

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

## (2) Operations and Services

The Board's responsibilities require thorough analysis of domestic and international financial and economic developments. The Board carries out those responsibilities in conjunction with the Reserve Banks and the FOMC. The Board also exercises general oversight of the operations of the Reserve Banks and exercises broad responsibility in the nation's payments system. Policy regarding open market operations is established by the FOMC. However, the Board has sole authority over changes in reserve requirements, and it must approve any change in the discount rate initiated by a Reserve Bank. The Board also plays a major role in the supervision and regulation of the U.S. financial system. It has supervisory responsibilities for state-chartered banks that are members of the System, bank holding companies, savings and loan holding companies, foreign activities of member banks, U.S. activities of foreign banks, and any nonbank financial companies the Financial Stability Oversight Council (FSOC) has determined should be supervised by the Board. Although the Dodd-Frank Act gave the Bureau general rule-writing responsibility for federal consumer financial laws, the Board retains rule-writing responsibility under the Community Reinvestment Act and other specific statutory provisions. The Board also enforces the requirements of federal consumer financial laws for state member banks with assets of $10 billion or less. In addition, the Board enforces certain other consumer laws at all state member banks, regardless of size.

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

Section 7(a)(3)(A) of the Federal Reserve Act requires that any amount of surplus funds of the Reserve Banks that exceed or would exceed $6.825 billion be transferred to the Treasury via the Board. On January 1, 2021 the National Defense Authorization Act (Defense Act) for Fiscal Year 2021 was enacted and amended section 7 of the Federal Reserve Act related to Reserve Bank surplus. The Defense Act reduces the statutory limit on aggregate Reserve Bank surplus from $6.825 billion to $6.785 billion. To bring the aggregate surplus within the new limit the Reserve Banks made a lump-sum payment to Treasury in the amount of $40 million in February 2021. As an intermediary transfer agent, the Board does not recognize the remittances as revenue nor does the Board use the remittances to fund Board expenses. Additional information and disclosures regarding these remittances to the Treasury can be found in the combined financial statements of the Federal Reserve Banks.

### (3) Significant Accounting Policies

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

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

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

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

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

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

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

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

**Assessments for Currency Costs** — The Board issues the nation's currency (in the form of Federal Reserve notes), and the Reserve Banks distribute currency through depository institutions. The Board incurs costs and assesses the Reserve Banks for these costs related to producing, issuing, and retiring Federal Reserve notes as well as providing other services. The assessment is allocated based on each Reserve Bank's share of the number of notes comprising the System's net liability for Federal Reserve notes on December 31 of the prior year. The Board recognizes the assessment in the year in which the associated costs are incurred.

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

**Art Collections** — The Board has collections of works of art, historical treasures, and similar assets. These collections are maintained and held for public exhibition in furtherance of public service. Proceeds from any sales of collections are used to acquire other items for collections. The cost of collections purchased by the Board is charged to expense in the year purchased and donated collection items are not recorded. The value of the Board's collections has not been determined.

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

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

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

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

**Recently Issued Accounting Standards** —In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842), which supersedes the existing guidance for lease accounting, *Leases* (Topic 840). ASU 2016-02 requires lessees to recognize leases on their balance sheets (through right-of-use (ROU) assets and lease liabilities), and leaves lessor accounting largely unchanged.

The Board adopted the provisions of Topic 842 on December 31, 2020. The Board used the modified retrospective approach and the option presented under ASU 2018-11 to transition only active leases as of the December 31, 2020 adoption date. The cumulative effect adjustment was recorded as of that date. All comparative periods prior to December 31, 2020 retain the financial reporting and disclosure requirements of Topic 840.

The Board elected to use the transition package of practical expedients permitted under Topic 842, which, among other things, allowed the Board to carry forward the historical lease classification. Additionally, the Board made an accounting policy election to exempt short-term leases (with an initial term of 12 months or less) from the provisions of Topic 842, which resulted in recognition of the related lease payments on a straight-line basis over the lease term, consistent with prior treatment under Topic 840. The Board did not elect the "hindsight" practical expedient when determining the lease terms under Topic 842.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU), 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This update was issued to create common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The guidance is applicable to all contracts for the transfer of goods or services regardless of industry or type of transaction. This update requires recognition of revenue in a manner that reflects the consideration that the entity expects to receive in return for the transfer of goods or services to customers. Subsequently, the FASB issued a number of related ASUs including ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date;*

ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net);* and ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing.* This revenue recognition accounting guidance was effective for the Board for the year ended December 31, 2019, and the relevant disclosures have been incorporated into the current disclosures as applicable.

In August 2018, the FASB issued ASU 2018-14, *Retirement Benefits-Defined Benefits Plans-General* (Subtopic 715-20). This update modifies the disclosure requirements for pension and postretirement plans. The Board has adopted this standard for the year ending December 31, 2020. Relevant disclosure updates are included in the retirement and other benefits footnote disclosures.

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

## (4) Property, Equipment, and Software

The following is a summary of the components of the Board's property, equipment, and software, at cost, less accumulated depreciation and amortization as of December 31, 2020 and 2019:

| | As of December 31, 2020 | As of December 31, 2019 |
|---|---|---|
| Land | $ 49,464,201 | $ 49,464,201 |
| Buildings and improvements | 320,087,009 | 317,286,397 |
| Construction in process | 331,621,949 | 200,893,169 |
| Furniture and equipment | 108,090,307 | 98,512,525 |
| Software in use | 63,385,430 | 70,562,226 |
| Software in process | 8,045,511 | 4,802,274 |
| Vehicles | 2,888,801 | 2,760,282 |
| Lease – office equipment | 283,300 | 283,300 |
| Subtotal | 883,866,508 | 744,564,374 |
| Less accumulated depreciation and amortization | (333,926,115) | (305,683,665) |
| Property, equipment, and software – net | $ 549,940,393 | $ 438,880,709 |

Construction in process include costs incurred in the current or prior years for long-term projects and building enhancements. The Board recorded accrued liabilities for noncash capital assets of goods received or services performed of $19,242,000 and $2,466,000 at December 31, 2020 and 2019, respectively. The Board recorded retainage liabilities for noncash capital assets of goods received or services performed of $408,000 and $8,452,000 for the years ended December 31, 2020 and 2019, respectively.

## (5) Leases

The Board has operating and finance leases for copiers, data communication equipment, and office, training, data center, and warehouse space. The leases have remaining terms of 1 to 13 years, some of which include options to extend the term for up to 10 years. However, management determined that it was not reasonably certain that the Board would exercise its options to renew the leases, and therefore the renewal options were not included in the lease term or the resulting ROU asset and lease liability balances. The Board's current lease arrangements expire from 2020 through 2033.

Adoption of Topic 842 resulted in the recording of ROU assets and corresponding lease liabilities of $214,941,299 and $248,413,518, respectively, as of December 31, 2020. The difference between the ROU assets and the lease liabilities represented the existing deferred rent balance (under Topic 840), which was reduced to zero upon adoption of Topic 842 on December 31, 2020. The adoption of Topic 842 did not materially impact the Board's net earnings and had no impact on its cash flows.

The Board's lease population does not include any residual value guarantees, and therefore none were considered in the calculation of the ROU and lease liability balances. The Board has leases that contain variable payments, most commonly in the form of common area maintenance charges, which are based on actual costs incurred. These variable payments were excluded from the calculation of the ROU asset and lease liability balances since they are not fixed or in-substance fixed payments.

For leases with terms greater than 12 months, the Board records the related ROU assets and lease liabilities at the present value of lease payments over the lease terms. For leases with an initial term of 12 months or less (with purchase options or extension options that are not reasonably certain to be exercised), the Board does not record them on the balance sheet, but instead recognizes lease expense on a straight-line basis over the terms of the leases.

***Lease cost.*** The Board's lease cost was comprised of the following components for the year ended December 31, 2020:

| | |
|---|---|
| Operating lease cost | $ 31,778,882 |
| Short-term lease cost | 610,148 |
| Variable lease cost | 4,978,490 |
| Amortization of finance lease assets | 38,739 |
| Interest on finance lease liabilities | 6,926 |
| Sublease income | (635,808) |
| Total lease cost | **$ 36,777,377** |

***Lease commitments.*** The Board's future minimum lease payments required under operating and finance leases as of December 31, 2020 were as follows:

| | Operating Leases | Finance Leases |
|---|---|---|
| 2021 | $ 39,144,530 | $ 20,225 |
| 2022 | 25,826,577 | 15,169 |
| 2023 | 24,391,298 | - |
| 2024 | 29,298,840 | - |
| 2025 | 28,542,674 | - |
| Thereafter | 111,246,387 | - |
| Total lease payments | 258,450,306 | 35,394 |
| Less imputed interest | 10,036,792 | 622 |
| Present value of lease payments | 248,413,514 | 34,772 |
| Less current maturities of lease obligations | 36,918,219 | 19,725 |
| Long-term lease obligations | $ 211,495,295 | $ 15,047 |

As of December 31, 2020, the Board had additional operating leases, primarily for additional office space, that have not yet commenced with lease liabilities totaling $508,995. These operating leases will commence in 2022 with a lease term of 11 years.

In order to calculate the ROU asset and lease liability for a lease, Topic 842 required that a lessee apply a discount rate equal to the rate implicit in the lease whenever that rate was readily determinable. The Board's lease agreements did not provide a readily determinable implicit rate, nor was the rate available to the Board from its lessors. Therefore, as permitted under Topic 842 for non-public business entities in such situations, management estimated the Board's risk-free rate (U.S. Treasury rate), as determined using a period comparable with that of the lease term. The risk-free rate, which is based on information available at either the implementation date of Topic 842 or at lease commencement for leases entered into subsequently, was used to discount the remaining lease payments to present value.

***Additional lease information.*** Additional information related to the Board's leases as of December 31, 2020 was as follows:

| | |
|---|---|
| **Weighted Average Remaining Lease Term** | |
| Operating leases | 8.60 years |
| Finance leases | 1.75 years |
| | |
| **Weighted Average Discount Rate** | |
| Operating leases | 0.97 % |
| Finance leases | 1.94 % |

***Supplemental cash flow information.*** Supplemental cash flow information related to the Board's leases during the year ended December 31, 2020 was as follows:

| **Cash paid for amounts included in measurement of lease liabilities:** | | |
|---|---|---|
| Operating cash flows from operating leases | $ | 35,521,731 |
| Operating cash flows from finance leases | $ | 6,926 |
| Financing cash flows from finance leases | $ | 43,211 |

## (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 $900,000,000 and $220,000,000 during each of the years ended December 31, 2020 and 2019, respectively. The Board was not assessed a contribution for 2020 or 2019.

Annually, the Society of Actuaries released new mortality tables and updated mortality projection scales. The System analyzed these new tables relative to the System's actual retiree mortality experience. Based on these analyses, the System adopted for year-end 2019 the modified MP-2018 projections scales and RP-2014 mortality tables with various adjustments to reflect the System's recent mortality experience of System retirees. The adjusted tables and scales included the Board's experience and the Board concurred with the adoption of these changes.

Annually, the Society of Actuaries Retirement Plan Experience Committee releases updated mortality tables and mortality projection scales that are analyzed by the System's external actuaries using actual retiree mortality experience. This year, the System reviewed the mortality tables released in October 2019 relative to the System's actual retiree mortality experience, as part of the demographic experience study that was conducted every five years. As a result , the System adopted for year-end 2020, the modified MP-2019 projections scales and Pri-2012 mortality tables with various adjustments to reflect the recent mortality experience of System retirees. The adjusted tables and scales included the Board's experience and the Board concurred with the adoption of these changes.

**Benefits Equalization Plan** — Board employees covered under the System Plan are also covered under a Benefits Equalization Plan (BEP). Benefits paid under the BEP are limited to those benefits that cannot be paid from the System Plan due to limitations imposed by the Internal Revenue Code.

During 2020, the BEP experienced projected benefit obligation (PBO) losses as a result of several factors. The largest increase in the liability resulted from demographic assumption changes as a result of an experience study conducted in 2020 including changes in the termination, retirement and rate of compensation increase assumptions. The decrease in the discount rate from 3.80% to 3.33% also significantly increased the PBO. The census data update resulted in an increase in the PBO due to actual experience differing from expected for rates of termination and retirement.

Activity for the BEP as of December 31, 2020 and 2019, is summarized in the following tables:

| | 2020 | 2019 |
|---|---|---|
| **Change in projected benefit obligation:** | | |
| Benefit obligation – beginning of year | $ 101,572,979 | $ 72,005,583 |
| Service cost | 7,580,526 | 5,741,083 |
| Interest cost | 4,157,187 | 3,607,889 |
| Plan participants' contributions | - | - |
| Actuarial (gain) loss | 55,743,791 | 20,452,545 |
| Gross benefits paid | (347,882) | (234,121) |
| Benefit obligation – end of year | $ 168,706,601 | $ 101,572,979 |
| | | |
| Accumulated benefit obligation – end of year | $ 29,503,007 | $ 21,881,442 |
| | | |
| **Weighted-average assumptions used to determine benefit obligation as of December 31:** | | |
| Discount rate | 3.33% | 3.80% |
| Rate of compensation increase | 4.25% | 4.25% |
| | | |
| **Change in plan assets:** | | |
| Fair value of plan assets – beginning of year | $ - | $ - |
| Employer contributions | 347,882 | 234,121 |
| Plan participants' contributions | - | - |
| Gross benefits paid | (347,882) | (234,121) |
| 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) | 362,969 | 275,821 |
| Benefit obligation (noncurrent) | 168,343,632 | 101,297,158 |
| Funded status | (168,706,601) | (101,572,979) |
| Amount recognized – end of year | $ (168,706,601) | $ (101,572,979) |
| | | |
| **Amounts recognized in the balance sheets consist of:** | | |
| Asset | $ - | $ - |
| Liability – current | (362,969) | (275,821) |
| Liability – noncurrent | (168,343,632) | (101,297,158) |
| Net amount recognized | $ (168,706,601) | $ (101,572,979) |
| | | |
| **Amounts recognized in accumulated other comprehensive income consist of:** | | |
| Net actuarial loss | $ 97,587,826 | $ 45,235,025 |
| Prior service cost | - | - |
| Net amount recognized | $ 97,587,826 | $ 45,235,025 |

| | | |
|---|---|---|
| **Expected cash flows:** | | |
| Expected employer contributions – 2021 | $ | 362,969 |
| **Expected benefit payments:*** | | |
| 2021 | $ | 362,969 |
| 2022 | $ | 452,743 |
| 2023 | $ | 557,400 |
| 2024 | $ | 689,127 |
| 2025 | $ | 859,027 |
| 2026–2030 | $ | 8,510,679 |

* Expected benefit payments to be made by the Board.

| | 2020 | 2019 |
|---|---|---|
| **Components of net periodic benefit cost:** | | |
| Service cost | $ 7,580,526 | $ 5,741,083 |
| Interest cost | $ 4,157,187 | $ 3,607,889 |
| Expected return on plan assets | - | - |
| **Amortization:** | | |
| Actuarial (gain) loss | $ 3,390,990 | $ 1,955,013 |
| Prior service cost | - | 39,689 |
| Net periodic benefit cost | $ 15,128,703 | $ 11,343,674 |
| **Weighted-average assumptions used to determine net periodic benefit cost:** | | |
| Discount rate | 3.80% | 4.56% |
| Rate of compensation increase | 4.25% | 4.25% |
| **Other changes in plan assets and benefit obligations recognized in other comprehensive income:** | | |
| Current year actuarial (gain) loss | $ 55,743,791 | $ 20,452,545 |
| Amortization of prior service cost | - | $ (39,689) |
| Amortization of actuarial gain (loss) | (3,390,990) | (1,955,013) |
| Total recognized in other comprehensive (income) loss | $ 52,352,801 | $ 18,457,843 |
| Total recognized in net periodic benefit cost and other comprehensive income | $ 67,481,504 | $ 29,801,517 |

**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.

During 2020, the PEP experienced PBO losses as a result of several factors. The largest increase in the liability resulted from the decrease in the discount rate from 3.46% to 2.82%. A refinement to the determination of benefits in the valuation due to late retirement increases also increased the PBO. The census data update resulted in an increase in the PBO due to actual experience differing from expected for rates of termination and form of payment election and the appointment of new officers. Lastly, an experience study was conducted in 2020 which resulted in demographic assumption changes for rates of termination and retirement and form of payment election which created PBO losses. These losses were partially offset by a change in mortality assumption and a change in the rates of compensation increase.

Activity for the PEP as of December 31, 2020 and 2019, is summarized in the following tables:

| | 2020 | 2019 |
|---|---|---|
| **Change in projected benefit obligation:** | | |
| Benefit obligation – beginning of year | $ 46,684,484 | $ 35,424,567 |
| Service cost | 1,472,825 | 1,144,954 |
| Interest cost | 1,721,126 | 1,688,042 |
| Plan participants' contributions | - | - |
| Actuarial (gain) loss | 11,816,341 | 9,069,098 |
| Gross benefits paid | (779,521) | (642,177) |
| Benefit obligation – end of year | $ 60,915,255 | $ 46,684,484 |
| | | |
| Accumulated benefit obligation – end of year | $ 55,120,758 | $ 41,586,473 |
| | | |
| **Weighted-average assumptions used to determine benefit obligation as of December 31:** | | |
| Discount rate | 2.82% | 3.46% |
| Rate of compensation increase | 4.25% | 4.25% |
| | | |
| **Change in plan assets:** | | |
| Fair value of plan assets – beginning of year | $ - | $ - |
| Employer contributions | 779,521 | 642,177 |
| Plan participants' contributions | - | - |
| Gross benefits paid | (779,521) | (642,177) |
| 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 | 871,371 | 788,025 |
| Benefit obligation – noncurrent | 60,043,884 | 45,896,459 |
| Funded status | (60,915,255) | (46,684,484) |
| Amount recognized – end of year | $ (60,915,255) | $ (46,684,484) |
| | | |
| **Amounts recognized in the balance sheets consist of:** | | |
| Asset | $ - | $ - |
| Liability – current | (871,371) | (788,025) |
| Liability – noncurrent | (60,043,884) | (45,896,459) |
| Net amount recognized | $ (60,915,255) | $ (46,684,484) |

| | | 2020 | 2019 |
|---|---|---|---|
| **Amounts recognized in accumulated other comprehensive income consist of:** | | | |
| Net actuarial loss | | $ 27,391,468 | $ 17,183,254 |
| Prior service cost | | - | - |
| Net amount recognized | | $ 27,391,468 | $ 17,183,254 |
| | | | |
| **Expected cash flows:** | | | |
| Expected employer contributions – 2021 | $ 871,371 | | |
| | | | |
| **Expected benefit payments:*** | | | |
| 2021 | $ 871,371 | | |
| 2022 | $ 1,006,695 | | |
| 2023 | $ 1,169,741 | | |
| 2024 | $ 1,346,334 | | |
| 2025 | $ 1,522,016 | | |
| 2026–2030 | $ 10,649,800 | | |
| * Expected benefit payments to be made by the Board. | | | |
| | | | |
| **Components of net periodic benefit cost:** | | | |
| Service cost | | $ 1,472,825 | $ 1,144,954 |
| Interest cost | | 1,721,126 | 1,688,042 |
| Expected return on plan assets | | - | - |
| **Amortization:** | | | |
| Actuarial (gain) loss | | - | - |
| Prior service cost | | $ 1,608,127 | 847,202 |
| Net periodic benefit cost | | $ 4,802,078 | $ 3,680,198 |
| | | | |
| **Weighted-average assumptions used to determine net periodic benefit cost:** | | | |
| Discount rate | | 3.46% | 4.35% |
| Rate of compensation increase | | 4.25% | 4.25% |
| | | | |
| **Other changes in plan assets and benefit obligations recognized in other comprehensive income:** | | | |
| Current year actuarial (gain) loss | | $ 11,816,341 | $ 9,069,098 |
| Amortization of prior service cost | | - | - |
| Amortization of actuarial gain (loss) | | (1,608,127) | (847,202) |
| Total recognized in other comprehensive (income) loss | | $ 10,208,214 | $ 8,221,896 |
| | | | |
| Total recognized in net periodic benefit cost and other comprehensive income | | $ 15,010,292 | $ 11,902,094 |

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, 2020 and 2019, is summarized in the following table:

| | 2020 | 2019 |
|---|---|---|
| **Retirement benefit obligation:** | | |
| Benefit obligation – BEP | $ 168,706,601 | $ 101,572,979 |
| Benefit obligation – PEP | 60,915,255 | 46,684,484 |
| Additional benefit obligations | 222,042 | 129,079 |
| Total accumulated retirement benefit obligation | $ 229,843,898 | $ 148,386,542 |

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 $1,567,000 and $1,953,000 in 2020 and 2019, 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 $32,311,000 and $30,291,000 in 2020 and 2019, respectively.

## (7) Postretirement Benefits

The Board provides certain life insurance programs for its active employees and retirees. Activity as of December 31, 2020 and 2019, is summarized in the following tables:

| | 2020 | 2019 |
|---|---|---|
| **Change in benefit obligation:** | | |
| Benefit obligation – beginning of year | $ 17,638,376 | $ 15,163,176 |
| Service cost | 156,178 | 137,994 |
| Interest cost | 590,211 | 646,988 |
| Plan participants' contributions | - | - |
| Actuarial (gain) loss | 1,600,704 | 2,021,627 |
| Gross benefits paid | (342,736) | (331,409) |
| Benefit obligation – end of year | $ 19,642,733 | $ 17,638,376 |
| **Weighted-average assumptions used to determine benefit obligation as of December 31 – discount rate** | 2.68% | 3.38% |
| **Change in plan assets:** | | |
| Fair value of plan assets – beginning of year | $ - | $ - |
| Employer contributions | 342,736 | 331,409 |
| Gross benefits paid | (342,736) | (331,409) |
| 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 | 641,098 | 604,769 |
| Benefit obligation – noncurrent | 19,001,635 | 17,033,607 |
| Funded status | (19,642,733) | (17,638,376) |
| Amount recognized – end of year | $ (19,642,733) | $ (17,638,376) |
| **Amounts recognized in the balance sheets consist of:** | | |
| Asset | $ - | $ - |
| Liability – current | (641,098) | (604,769) |
| Liability – noncurrent | (19,001,635) | (17,033,607) |
| Net amount recognized | $ (19,642,733) | $ (17,638,376) |

| | | 2020 | 2019 |
|---|---|---|---|
| **Amounts recognized in accumulated other comprehensive income consist of:** | | | |
| Net actuarial loss | | $ 5,203,767 | $ 3,938,618 |
| Prior service credit | | (78,920) | (88,519) |
| Net amount recognized | | $ 5,124,847 | $ 3,850,099 |
| **Expected cash flows:** | | | |
| Expected employer contributions – 2021 | $ 641,098 | | |
| **Expected benefit payments:*** | | | |
| 2021 | $ 641,098 | | |
| 2022 | $ 666,234 | | |
| 2023 | $ 697,029 | | |
| 2024 | $ 723,024 | | |
| 2025 | $ 751,590 | | |
| 2026–2030 | $ 4,167,299 | | |
| * Expected benefit payments to be made by the Board. | | | |
| **Components of net periodic benefit cost:** | | | |
| Service cost | | $ 156,178 | $ 137,994 |
| Interest cost | | 590,211 | 646,988 |
| Expected return on plan assets | | - | - |
| Amortization: | | | |
| Actuarial (gain) loss | | 335,555 | 67,535 |
| Prior service credit | | (9,599) | (9,599) |
| Net periodic benefit cost | | $ 1,072,345 | $ 842,918 |
| **Weighted-average assumptions used to determine net periodic benefit cost – discount rate** | | 3.38% | 4.31% |
| **Other changes in plan assets and benefit obligations recognized in other comprehensive income:** | | | |
| Current year actuarial (gain) loss | | $ 1,600,704 | $ 2,021,627 |
| Amortization of prior service credit | | 9,599 | 9,599 |
| Amortization of actuarial gain (loss) | | (335,555) | (67,535) |
| Total recognized in other comprehensive (income) loss | | $ 1,274,748 | $ 1,963,691 |
| Total recognized in net periodic benefit cost and other comprehensive income | | $ 2,347,093 | $ 2,806,609 |

## (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 1.20 percent and 2.12 percent as of December 31, 2020 and 2019, respectively. The net periodic postemployment benefit cost (credit) recognized by the Board as of December 31, 2020 and 2019, was $459,000 and $875,000, 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, 2020 and 2019, 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, 2019 | $ (35,738,540) | $ (1,886,405) | $ (37,624,945) |
| **Change in accumulated other comprehensive income (loss):** | | | |
| Net actuarial gain (loss) arising during the year | (29,521,643) | (2,021,627) | (31,543,270) |
| Other comprehensive income before reclassifications | (29,521,643) | (2,021,627) | (31,543,270) |
| Amortization of prior service (credit) costs[a][b] | 39,689 | (9,599) | 30,090 |
| Amortization of net actuarial (gain) loss[a][b] | 2,802,215 | 67,535 | 2,869,750 |
| Amounts reclassified from accumulated other comprehensive income | 2,841,904 | 57,936 | 2,899,840 |
| Change in accumulated other comprehensive income (loss) | (26,679,739) | (1,963,691) | (28,643,430) |
| Balance – December 31, 2019 | (62,418,279) | (3,850,096) | (66,268,375) |
| **Change in accumulated other comprehensive income (loss):** | | | |
| Net actuarial gain (loss) arising during the year[a] | (67,560,133) | (1,600,704) | (69,160,837) |
| Other comprehensive income before reclassifications | (67,560,133) | (1,600,704) | (69,160,837) |
| Amortization of prior service (credit) costs[a][b] | - | (9,599) | (9,599) |
| Amortization of net actuarial (gain) loss[a][b] | 4,999,117 | 335,555 | 5,334,672 |
| Amounts reclassified from accumulated other comprehensive income | 4,999,117 | 325,956 | 5,325,073 |
| Change in accumulated other comprehensive income (loss) | (62,561,016) | (1,274,748) | (63,835,764) |
| Balance – December 31, 2020 | $ (124,979,295) | $ (5,124,844) | $ (130,104,139) |

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

## (10) Selected Transactions with the Reserve Banks

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

| | 2020 | 2019 |
|---|---|---|
| **For the years ended December 31:** | | |
| **Assessments levied or to be levied on Reserve Banks for:** | | |
| Currency expenses | $ 831,198,469 | $ 836,993,149 |
| Board operations | 947,000,000 | 814,000,000 |
| Transfers of funds to the Bureau | 517,300,000 | 518,600,000 |
| Total assessments levied or to be levied on Reserve Banks | $2,295,498,469 | $2,169,593,149 |

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 $3,231,000 and $2,821,000 for the years ended December 31, 2020 and 2019, respectively. Activity related to the Board and the OEB is summarized in the following table:

| | 2020 | 2019 |
|---|---|---|
| **As of December 31:** | | |
| Accounts receivable due from the Office of Employee Benefits | $ 472,879 | $ 695,642 |
| Accounts payable due to the Office of Employee Benefits | $ - | $ - |

## (11) Federal Financial Institutions Examination Council

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

The Board's financial statements do not include financial data for the Council. The Council expenses charged to the Board were $3,573,000 and $3,762,000 for the years ended December 31, 2020 and 2019, respectively for the assessment of operating, examiner education, and other Council program expenses. The Board expenses charged to the Council were $2,203,000 and $2,170,000 for the years ended December 31, 2020 and 2019, respectively for the reimbursement of data processing and other administrative charges performed on behalf of the Council.

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

Beginning July 2011, section 1017 of the Dodd-Frank Act requires the Board to fund the Bureau from the combined earnings of the System, in an amount determined by the Director of the Bureau to be reasonably necessary to carry out the authorities of the Bureau under federal consumer financial law, taking into account such other sums made available to the Bureau from the preceding year (or quarter of such year). The Dodd-Frank Act limits the amount to be transferred each fiscal year to a fixed percentage of the System's total operating expenses. The Bureau transfers funds to the Board to fund their share of OIG operations. The Board recognized revenue of $13,600,000 and $10,500,000 related to OIG funding in each of the 2020 and 2019 calendar years .

**(13) Currency Costs**

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

The currency costs incurred by the Board for the years ended December 31, 2020 and 2019, are reflected in the following table:

| | 2020 | 2019 |
|---|---|---|
| **Costs related to Bureau of Engraving and Printing:** | | |
| Printing | $ 778,420,492 | $ 641,428,448 |
| Retirement of Federal Reserve Currency | 4,085,441 | 3,614,963 |
| Meaningful access program | 879,354 | 818,172 |
| New facility | - | 150,000,000 |
| Subtotal related to Bureau of Engraving and Printing | $ 783,385,287 | $ 795,861,583 |
| **Other currency costs:** | | |
| Shipping | $ 25,037,894 | $ 18,667,994 |
| Research and development | 17,442,000 | 14,141,587 |
| Quality assurance services | 1,429,419 | 6,424,021 |
| Education services | 3,903,868 | 1,897,964 |
| Subtotal of other currency costs | $ 47,813,182 | $ 41,131,566 |
| Total currency costs | $ 831,198,469 | $ 836,993,149 |

**(14) Commitments and Contingencies**

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

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

## (15) Subsequent Events

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2020. Subsequent events were evaluated through March 10, 2021, 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, 2020 and the related statements of operations and cash flows for the year then ended, and the related notes to the financial statements. We have issued our report thereon dated March 10, 2021.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Board's financial statements as of and for the year ended December 31, 2020 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

*Purpose of this Report*

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

KPMG LLP

Washington, District of Columbia
March 10, 2021