

Appendix B

Sources and Uses of Funds

The Federal Reserve System, in accordance with generally accepted accounting principles, accrues income and expenses and capitalizes acquisitions of assets whose useful lives extend over several years (see appendix A).

The System derives its income primarily from earnings on U.S. government securities that the Federal Reserve has acquired through open market operations, one of the tools of monetary policy. These earnings account for approximately 95 percent of current income (table B.1).

The current expenses of the Reserve Banks consist of their operating expenses and the costs of the earnings credits

granted to depository institutions on clearing balances held with the Reserve Banks (table B.2). The Reserve Banks record extraordinary adjustments to current net income in a profit and loss account. The primary entries in the account are for gains or losses on the sale of U.S. government securities and for gains or losses on assets denominated in foreign currencies that result either from the sale of those assets or from their revaluation at market exchange rates.

The Reserve Banks maintain a surplus account to absorb unexpected losses, much as commercial establishments retain earnings. The Board of Governors requires that the surplus account at year-end be an amount equal to the capital paid in by the member banks. Since the end of 1964, the Board's policy has been to transfer to the U.S. Treasury all net income after paying the statutory dividend to member banks and the amount necessary to equate surplus to paid-in capital. The amount transferred is classified as interest on Federal Reserve notes. Such payments were \$26.6 billion for 1998 and are estimated to be \$25.4 billion for 1999.

Table B.1

Income of the Federal Reserve System,
1998 and 1999

Millions of dollars

Source	1998 actual	1999 estimate
Loans	8.8	11.1
U.S. government securities ...	26,842.4	28,216.1
Foreign currencies	435.2	224.8
Priced services	816.0	835.9
Other	47.0	58.9
Total	28,149.4	29,346.8

56 *Annual Report: Budget Review, 2000**Table B.2*

Distribution of the Income of the Federal Reserve Banks, 1998 and 1999

Millions of dollars

Item	1998 actual	1999 estimate
Current income ¹	28,149	29,347
LESS		
<i>Current expenses of Reserve Banks</i> ²		
Operating expenses	1,487	1,531
Costs of earnings credits	346	321
EQUALS		
Current net income	26,316	27,495
PLUS		
Net additions to, or deductions from (-), current net income ³	1,914	-526
LESS		
Cost of unreimbursed Treasury services ⁴	8	8
<i>Assessments by the Board</i>		
Board expenses	178	214
Cost of currency	409	485
<i>Other distributions</i>		
Dividends paid to member banks ⁵	343	374
Transfers to, or from (-), surplus ⁶	732	479
EQUALS		
Payment to U.S. Treasury	26,561	25,410

1. See table B.1.

2. Net of reimbursements due from the U.S. Treasury and other government agencies. Also reflects reductions in credits for net periodic pension cost amounting to \$288.4 million in 1998 and \$366.8 million in 1999.

3. This account is the same as that reported under the same name in the table "Income and Expenses of Federal Reserve Banks" in the Statistical Tables section of the Board's *Annual Report* and includes realized and unrealized gains on assets denominated in foreign currencies, gains on sales of U.S. government securities, and miscellaneous gains and losses.

4. The cost of services provided to the U.S. Treasury that are reimbursable under agreements with the Treasury and for which reimbursement is not anticipated.

5. The Federal Reserve Act requires the Federal Reserve to pay dividends to member banks at the rate of 6 percent of paid-in capital.

6. Each year, to provide a reserve against losses, the Federal Reserve transfers to its surplus account an amount sufficient to equate surplus to paid-in capital.

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The Federal Reserve System, in accordance with generally accepted accounting principles, accrues income and expenses and capitalizes acquisitions of assets whose useful lives extend over several years (see appendix A).

The System derives its income primarily from earnings on U.S. government securities that the Federal Reserve has acquired through open market operations, one of the tools of monetary policy. These earnings account for approximately 96 percent of current income (table B.1).

The current expenses of the Reserve Banks consist of their operating expenses and the costs of the earnings credits granted to depository institutions on

clearing balances held with the Reserve Banks (table B.2). The Reserve Banks record extraordinary adjustments to current net income in a profit and loss account. The primary entries in the account are for gains or losses on the sale of U.S. government securities and for gains or losses on assets denominated in foreign currencies that result either from the sale of those assets or from their revaluation at market exchange rates.

The Reserve Banks maintain a surplus account to absorb unexpected losses, much as commercial establishments retain earnings. The Board of Governors requires that the surplus account at year-end be an amount equal to the capital paid in by the member banks. Since the end of 1964, the Board's policy has been to transfer to the U.S. Treasury all net income after paying the statutory dividend to member banks and the amount necessary to equate surplus to paid-in capital. The amount transferred is classified as interest on Federal Reserve notes. Such payments were \$25.4 billion and \$25.3 billion for 1999 and 2000 respectively. In addition to these payments, a special transfer of surplus of \$3.752 billion on May 10, 2000, was statutorily required.

Table B.1

Income of the Federal Reserve System,
1999 and 2000

Millions of dollars

Source	1999	2000 (estimated)
Loans	11.1	22.8
U.S. government securities ...	28,216.1	32,736.9
Foreign currencies	224.8	269.5
Priced services	835.9	881.5
Other	58.9	53.2
Total	29,346.8	33,964.0

58 *Annual Report: Budget Review, 2001*

Table B.2

Distribution of the Income of the Federal Reserve Banks, 1999 and 2000

Millions of dollars

Item	1999	2000 (estimated)
Current income ¹	29,347	33,964
LESS		
<i>Current expenses of Reserve Banks</i> ²		
Operating expenses	1,531	1,586
Costs of earnings credits	321	385
EQUALS		
Current net income	27,495	31,992
PLUS		
Net additions to, or deductions from (–), current net income ³	–526	–1,492
LESS		
Cost of unreimbursed Treasury services ⁴	8	8
<i>Assessments by the Board</i>		
Board expenses	214	188
Cost of currency	485	436
<i>Other distributions</i>		
Dividends paid to member banks ⁵	374	410
Transfers to, or from (–), surplus ^{6,7}	479	4,115
EQUALS		
Payment to U.S. Treasury ⁷	25,410	25,344

1. For sources of income, see table B.1.

2. Net of reimbursements due from the U.S. Treasury and other government agencies. Also reflects reductions in credits for net periodic pension cost amounting to \$366.8 million in 1999 and \$392.6 million in 2000.

3. This account is the same as that reported under the same name in the table “Income and Expenses of Federal Reserve Banks” in the Statistical Tables section of the Board’s *Annual Report* and includes realized and unrealized gains on assets denominated in foreign currencies, gains on sales of U.S. government securities, and miscellaneous gains and losses.

4. The cost of services provided to the U.S. Treasury that are reimbursable under agreements with the Treasury and for which reimbursement is not anticipated.

5. The Federal Reserve Act requires the Federal Reserve to pay dividends to member banks at the rate of 6 percent of paid-in capital.

6. Each year, to provide a reserve against losses, the Federal Reserve transfers to its surplus account an amount sufficient to equate surplus to paid-in capital.

7. Does not reflect the special transfer of surplus from the Federal Reserve System to the Treasury of \$3.752 billion on May 10, 2000.

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The Federal Reserve System, in accordance with generally accepted accounting principles, accrues income and expenses and capitalizes acquisitions of assets whose useful lives extend over several years (see appendix A).

The System derives its income primarily from earnings on U.S. government securities that the Federal Reserve has acquired through open market operations, one of the tools of monetary policy. These earnings account for approximately 96 percent of current income (table B.1).

The current expenses of the Reserve Banks consist of their operating expenses

and the costs of the earnings credits granted to depository institutions on clearing balances held with the Reserve Banks (table B.2). The Reserve Banks record extraordinary adjustments to current net income in a profit and loss account. The primary entries in the account are for gains or losses on the sale of U.S. government securities and for gains or losses on assets denominated in foreign currencies that result either from the sale of those assets or from their revaluation at market exchange rates.

The Reserve Banks maintain a surplus account to absorb unexpected losses, much as commercial establishments retain earnings. The Board of Governors requires that the surplus account at year-end be an amount equal to the capital paid in by the member banks. Since the end of 1964, the Board's policy has been to transfer to the U.S. Treasury all net income after paying the statutory dividend to member banks and the amount necessary to equate surplus to paid-in capital. The amount transferred is classified as interest on Federal Reserve notes. Such payments were \$25.3 billion and \$27.1 billion for 2000 and 2001 respectively.

Table B.1

Income of the Federal Reserve System,
2000 and 2001

Millions of dollars

Source	2000	2001 (estimated)
Loans	22.8	11.7
U.S. government securities ...	32,736.9	30,541.7
Foreign currencies	269.5	239.1
Priced services	881.5	926.3
Other	53.2	151.6
Total	33,964.0	31,870.4

NOTE. Components may not sum to totals because of rounding.

44 *Annual Report: Budget Review, 2002*

Table B.2

Distribution of the Income of the Federal Reserve Banks, 2000 and 2001

Millions of dollars

Item	2000	2001 (estimated)
Current income ¹	33,964	31,870
LESS		
<i>Current expenses of Reserve Banks</i> ²		
Operating expenses	1,587	1,781
Costs of earnings credits	385	253
EQUALS		
Current net income	31,992	29,837
PLUS		
Net additions to, or deductions from (-), current net income ³	-1,492	-1,117
LESS		
Cost of unreimbursed Treasury services ⁴	8	0
<i>Assessments by the Board</i>		
Board expenses	188	295
Cost of currency	436	339
<i>Other distributions</i>		
Dividends paid to member banks ⁵	410	428
Transfers to, or from (-), surplus ⁶	4,115	517
EQUALS		
Payment to U.S. Treasury	25,344	27,140

NOTE: Components may not sum to totals because of rounding.

1. For sources of income, see table B.1.

2. Net of reimbursements due from the U.S. Treasury and other government agencies. Also reflects reductions in credits for net periodic pension cost amounting to \$392.6 million in 2000 and \$392.4 million in 2001.

3. This account is the same as that reported under the same name in the table "Income and Expenses of Federal Reserve Banks" in the Statistical Tables section of the Board's *Annual Report* and includes realized and unrealized gains on assets denominated in foreign

currencies, gains on sales of U.S. government securities, and miscellaneous gains and losses.

4. The cost of services provided to the U.S. Treasury that are reimbursable under agreements with the Treasury and for which reimbursement is not anticipated.

5. The Federal Reserve Act requires the Federal Reserve to pay dividends to member banks at the rate of 6 percent of paid-in capital.

6. Each year, to provide a reserve against losses, the Federal Reserve transfers to its surplus account an amount sufficient to equate surplus to paid-in capital.