STANDARDS THAT WORK

From Main Street to Wall Street

FINANCIAL ACCOUNTING FOUNDATION
50th
ANNIVERSARY
1972-2022

FINANCIAL ACCOUNTING FOUNDATION®

2021 ANNUAL REPORT

Contents

STANDARDS THAT WORK

From Main Street to Wall Street

The Financial Accounting Foundation (FAF) strives to provide effective, efficient, and appropriate stewardship of the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB) to assist them in carrying out their respective missions that are focused on establishing and improving high-quality financial accounting and reporting standards that provide information useful to investors and other users of financial reports, and improving all stakeholders' understanding of those standards and preparers' ability to implement them effectively.

50 YEARS OF PROGRESS

Stakeholder Engagement and Independent Standard Setting

As we enter the 50^{th} year, we are honored to mark this important milestone in FAF history, and to continue to support our standard-setting Boards as they, and we, collectively fulfill our mission to establish and improve financial accounting standards for the world's largest capital market.

1972 *Formation of the Financial Accounting Foundation (FAF)*

1973 *FAF Trustees concurrently establish FASB and FASAC*

1979-1980 *FAF begins discussions/exploration of accounting standards for state and local governments*

1984 *FAF Trustees concurrently establish GASB and GASAC*

1999 *GASB establishes a new reporting model for state and local governmental entities*

2002 *The Sarbanes-Oxley Act established that U.S. corporations issuing publicly traded securities are required to pay accounting support fees to fund the work of the FASB*

2009 *FAF creates the FASB Accounting Standards Codification®*

50 YEARS OF PROGRESS

Stakeholder Engagement and Independent Standard Setting

2010 *The passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act paves the way for permanent funding for the GASB*

2012 *The FAF Board of Trustees approves the establishment of the Private Company Council (PCC)*

2017 *FAF launches a multi-tiered technology improvement project including a new customer relationship management (CRM) platform to help strengthen the Boards' engagement with stakeholders*

2020 *The Standard-setting Boards provide swift guidance for pressing accounting issues arising from the COVID-19 pandemic*

2022 *FAF celebrates 50th anniversary*

OUR MISSION

Our mission is, through governance and oversight, to ensure that the Financial Accounting Standards Board and the Governmental Accounting Standards Board fulfill their respective missions that are focused on establishing and improving high-quality financial accounting and reporting standards that provide information useful to investors and other users of financial reports, and improving all stakeholders' understanding of those standards and preparers' ability to implement them effectively.

- The FASB and the GASB (the Boards) set standards through a process that is robust, comprehensive, and inclusive.
- The FAF Board of Trustees provides oversight and promotes an independent and effective standard-setting process.
- The FAF management provides strategic counsel and services that support the work of the standard-setting Boards and Board of Trustees.

MESSAGE FROM THE FAF CHAIR AND FAF EXECUTIVE DIRECTOR

In 1972, a seven-person group was formed to study the establishment of accounting principles in the United States and to make recommendations for improving that process. At the time, corporate financial reporting practices and a part-time board closely tied to the accounting profession that set financial accounting standards were deemed inadequate to meet evolving investor needs. The Wheat committee, named for its chairman, former SEC Commissioner Francis M. Wheat, concluded there was an urgent need to establish a new and more independent organization to lead financial accounting standard setting in the United States. The first step recommended by the committee was the creation of the Financial Accounting Foundation (FAF).

Under the structure proposed by the Wheat study, the FAF's initial task, completed in 1973, was to establish the Financial Accounting Standards Board (FASB), a full-time body to create and improve financial accounting standards that provide useful information to investors and others who rely on accurate financial information. The success of FASB's work and its robust, inclusive standard-setting process led to the creation in 1984 of a companion Board, the Governmental Accounting Standards Board (GASB), to establish accounting standards for state and local governments. Under FAF oversight, the FASB and GASB produce and continue to refine financial accounting standards that serve as a model for the global community.

For 50 years, this structure—expert Boards operating independently, representing diverse perspectives, appointed and overseen by the Financial Accounting Foundation—has served investors and other users of financial statements well. Through its oversight of the standard-setting process and its own outreach, our Board of Trustees seeks to ensure that the FASB and GASB engage continuously with diverse stakeholder groups. Feedback from these groups is at the heart of the standard-setting process, informing the Boards' decision making from the outset of a new project through implementation of new standards and beyond. This open, transparent process underpins the strength of Generally Accepted Accounting Principles, or GAAP.

“Establishment of the structure in 1972 was an impressive response to changing needs of the economic community. In the intervening years, there have been repeated demonstrations of ability to adapt in constructive ways to changes in the environment.”

– Russell E. Palmer, President for the Trustees of the Financial Accounting Foundation, March 4, 1981

The FAF Trustees understand how important it is to safeguard the integrity of the independent standard-setting process, and to provide the staff and Boards with the tools they need to continue this vital work. Our multiyear technology investments proved essential during the pandemic. They not only enabled staff to continue to meet the needs of our stakeholders while working 100% remotely, but also improved the ability of the Boards to draft and publish standards more efficiently. Additionally, we continue to explore new ways for stakeholders to remain connected and provide feedback through multiple communications channels.

We spent much of the past year engaged in a strategic planning process led by FAF Vice Chair Mary Barth. That process has included in-depth interactions with stakeholders to help us shape priorities that will guide our organization for the next several years. The draft strategic plan was released for public comment in the spring of 2022, and we expect to complete and publish the final document later this year.

We also completed the second year of our initial three-year Diversity, Equity, and Inclusion (DEI) plan for our organization. During the year, we expanded DEI training for our employees, increased our outside partnerships with DEI-focused organizations, and increased the percentage of our hiring slates that included underrepresented minority candidates. We still have much work to do in this area, and we will continue our efforts in 2022.

We bade farewell in December to the FAF Trustees whose terms ended last year: Susan J. Carter, T. Eloise Foster, and Anthony J. Dowd. We also welcomed our new Trustees: Manju Ganeriwala, Edward J. Goldthorpe, W. Bryan Lewis, and Diane C. Nordin. We are grateful to all these leaders for their service and for being part of what is now a 50-year tradition of our important mission.

The members of the Wheat committee understood two things well: the best financial accounting standards emerge from a process that is inclusive and transparent yet independent, and those who set the standards will face near-constant pressure to tailor those standards to serve particular objectives or favor one interest or another. Their recommended model established the FAF as the independent board with the responsibility to appoint the standard setters and to hold them accountable, while protecting the integrity of the process from undue influence. The result is a body of work that has benefited investors, other stakeholders, and the public interest. While we are humbled by our responsibility and are aware that we must continuously strive to prove worthy of it, we are also proud to carry this legacy forward.

Sincerely,

Kathleen L. Casey, Chair

John W. Auchincloss, Executive Director

BOARD OF TRUSTEES

Kathleen L. Casey [1]
Senior Advisor, Patomak Global Partners LLC

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State Treasurer, Tennessee Department of the Treasury

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Jeffrey L. Esser [1,4]
Executive Director Emeritus, Government Finance Officers Association

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Treasurer, Commonwealth of Virginia

Edward J. Goldthorpe [3]
Partner, Head of Credit for BC Partners

Bruce T. Herring [2,4]
Retired, President, Strategic Advisers Inc., Fidelity Investments

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Executive Director, John W. Auchincloss
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Shundrawn A. Thomas [3]
President, Northern Trust Asset Management

Robin L. Washington [5]
Retired Executive Vice President and Chief Financial Officer, Gilead Sciences Inc.

SENIOR LEADERSHIP

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FAF Executive Director

Mary P. Crotty
FAF Chief Operating Officer

Steven Hobbs
Vice President, General Counsel, and Assistant Secretary

Trustee Committees

[1] Executive Committee, Kathleen L. Casey, Chair, Mary E. Barth, Vice Chair
[2] Appointments Committee*, Lynnette Kelly, Chair
[3] Audit and Finance Committee, Lawrence Salva, Chair
[4] Compensation Committee, Jeffrey L. Esser, Chair
[5] Standard-Setting Process Oversight Committee, David H. Lillard Jr., Co-Chair, Timothy F. Ryan, Co-Chair

* Non-committee member governmental Trustees (Jeffrey Esser and David Lillard) serve *ex officio* on the Appointments Committee when a GASB member appointment is under consideration.

MESSAGE FROM THE FASB CHAIR

The FASB has worked over the past 49 years to continually earn our independence by engaging in a robust, inclusive process that built the comprehensive body of GAAP we have today. That extensive body of work means there are few financial reporting topics that haven't already been addressed in GAAP. While there will always be a need to improve and update that guidance, it's also the right time to ask, "Where do we go from here?"

While we, as the standard setter, ultimately decide what to work on, we perform broad outreach with our stakeholders to help identify and prioritize what's on our agenda. As part of our agenda consultation project in 2021, we did just that.

During the first half of the year, FASB members and staff met with 200+ stakeholders—more than 70 of them investors or other financial statement users, including all our advisory groups—to hear their views on what the FASB should take on next. We summarized what we learned in our Invitation to Comment (ITC), which gave all stakeholders the opportunity to weigh in on these views or any others they may have. The response has been tremendous.

Since late 2021, the FASB has been actively addressing that input and prioritizing areas of significant investor feedback. To date, we've incorporated that feedback into current technical agenda projects on disaggregation of income statement expenses and targeted improvements to income tax disclosures.

I also made changes to the FASB's research agenda, adding projects on topics identified through the agenda consultation process. They included projects on digital assets, intangibles, government grants, and accounting for financial instruments with environmental, social, and governance (ESG)-linked features and regulatory credits. We are in the process of bringing the results of that research to the Board to help determine if there's an achievable path to standard setting on these issues and if they should be added to our technical agenda. We also are continuing to explore input we have received on other topics as part of the agenda outreach process.

To make room for these potential new projects, in 2021 we continued to work through existing projects on the technical agenda. We finalized nine new standards and published six proposed standards for public comment, including our eagerly awaited proposal to help investors and other allocators of capital better consider the effect of supplier finance programs on a buyer's working capital, liquidity, and cash flows, which we expect to finalize in the first half of 2022. Additionally, we issued two new chapters of our Conceptual Framework on financial statement elements and presentation.

In 2021, we continued to improve standards through our post-implementation review (PIR) process. That process resulted in new guidance, including a standard on recognizing and measuring contract assets and contract liabilities in a business combination to help investors and other financial statement users better understand the financial impact of these acquisitions. We also improved discount rate guidance for lessees that are not public business entities—including private companies, not-for-profit organizations, and employee benefit plans. And we took what we learned from our May 2021 credit losses roundtable and other stakeholder outreach to take fresh looks at the accounting for acquired financial assets and the troubled debt restructuring expected loss model.

While our Board members bring different backgrounds and approaches to our work, we are united by one mission: to improve accounting and financial reporting standards so that they provide investors and other allocators of capital with information that helps them make decisions. Investors don't all speak with one voice, so we conduct extensive, proactive outreach with a wide range of financial statement users.

Our first FASB Investor Outreach Report describes how we did that over the year ended June 30, 2021. The report highlights how we engage investors in the standard-setting process and incorporate their diverse input to provide information that will help "reasonable investors" make better-informed decisions. For example, the FASB staff had more than 430 investor interactions over the year—even as many stakeholders were still dealing with the effects of the pandemic. Substantially all those interactions were the result of FASB-initiated outreach aimed at soliciting a wide range of investor perspectives.

As I write this in early 2022, our colleagues at the one-year older Financial Accounting Foundation are celebrating the Foundation's 50th anniversary. We congratulate and thank the Foundation's Trustees and staff for their commitment to safeguard and support the independent standard-setting environment that enables the FASB to do our best work.

I want to thank my colleagues on the Board and staff for their contributions to what has been an extremely productive and exciting year. I also wish to thank all our stakeholders, past and present, whose input makes our work possible and challenges us to develop the best standards.

Sincerely,

Richard R. Jones, Chair

MEMBERS OF THE FASB

Gary R. Buesser
Board Member

Frederick L. Cannon
Board Member

Marsha L. Hunt
Board Member

Susan M. Cosper
Board Member

James L. Kroeker
Vice Chairman

Christine Ann Botosan
Board Member

Richard R. Jones
Chair

Hillary H. Salo
Technical Director

2021 FASB HIGHLIGHTS

Key Standards Issued in 2021

- Reference Rate Reform (Topic 848): Scope
- Franchisors—Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient
- Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events
- Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options (a consensus of the FASB Emerging Issues Task Force)
- Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments
- Compensation—Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards (a consensus of the Private Company Council)
- Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers
- Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities
- Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance

Exposure Documents Issued in 2021

Proposed Accounting Standards Updates

- Derivatives and Hedging (Topic 815): Fair Value Hedging—Portfolio Layer Method
- Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities
- Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions
- Interim Reporting (Topic 270): Disclosure Framework—Changes to Interim Disclosure Requirements
- Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures
- Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations

Invitation to Comment

- Agenda Consultation

Advisory Groups

Advisory and other groups provide important input to the FASB on projects, standards, and implementation efforts. More information about each group—including complete membership rosters—is available by clicking the icons below.

FASAC Financial Accounting Standards Advisory Council

IAC Investor Advisory Committee

NAC Not-for-Profit Advisory Committee

SBAC Small Business Advisory Committee

EITF Emerging Issues Task Force

PCC Private Company Council

MESSAGE FROM THE GASB CHAIR

The Governmental Accounting Standards Board (GASB) made significant progress developing and improving high-quality accounting and financial reporting standards in 2021.

The GASB offered virtual events to gain direct stakeholder feedback on two related major projects:

- The Financial Reporting Model Reexamination, which looks at what information financial reports should present in the future
- Revenue and Expense Recognition, which considers how revenues and expenses should be recognized within the model.

A third companion project, the Disclosure Framework, considers what information should be disclosed to allow stakeholders to gain a complete understanding of the model and related recognition concepts.

Stakeholder input the Board received through hundreds of written comments and the direct dialogue with dozens of participants in the virtual events informed Board discussions on these issues throughout the year and into 2022. While documents in the first two projects will take longer, the Board plans to issue a Concepts Statement on the Disclosure Framework in the 2nd quarter of 2022.

Ultimately, these “Big Three” projects will redefine and significantly improve accounting and financial reporting for state and local governments across the United States.

The Board responded to stakeholder feedback to rename the Comprehensive Annual Financial Report. Stakeholders brought to our attention that the pronunciation of the acronym for the Comprehensive Annual Financial Report sounded the same as an offensive term for black South Africans and those of the Muslim faith in some jurisdictions.

The report is now called the Annual Comprehensive Financial Report. We believe the change sends an important message: *Inclusiveness is one of our key values*. We are very pleased to see how quickly many stakeholders have adopted the new terminology.

In 2021, we began a focused effort on leveraging technology to drive improvements in our work. For example, we developed new methods to engage stakeholders and allow them to provide feedback on due process documents. This allows the Board to use tech to make it easier for stakeholders to share input and ideas with us. More specifically, within the Accounting Changes and Error Corrections project, we piloted a new electronic feedback form to allow stakeholders to share their ideas with us quickly and easily. We plan to continue the pilot and to consider adding new elements when the Board issues a proposal on Risks and Uncertainties Disclosures later this year.

An Important Milestone in Independent Standard Setting

In 2022, we commemorate the Financial Accounting Foundation (FAF) for 50 years of supporting independent standard setting in the United States.

Building on its success in establishing the Financial Accounting Standards Board in 1973, the FAF began to create a path forward for the creation of the GASB in the early 1980s. This culminated in a 1984 agreement with the founding governmental stakeholder organizations to “establish guidelines for financial accounting and reporting by state and local governmental units” and the GASB was born.

Charles G. Steele, FAF vice president and chairman of its special committee on the GASB, said on the occasion, “The need for the GASB has received widespread recognition for a long time… I am extremely hopeful that [it]… will lead to greater confidence in the financial processes of government.”

The Board believes Mr. Steele got his wish. Today, the Generally Accepted Accounting Principles developed by the GASB are considered the gold standard in accounting and financial reporting for state and local governments.

We salute the FAF for its resolve and vision in establishing the paradigm that has resonated across the globe for 50 years, which continues to serve as the model for the world as we look to the future.

Thank You to the GASB Staff

I want to conclude with a word of thanks to our amazing and talented staff with whom I am privileged to work alongside every day. In this second year of the pandemic, they took on every challenge the world had in store and responded with real professionalism. Our mission truly makes a difference and they saw their duties through with dedication and heart. They make me deeply proud to be a part of this organization.

Sincerely,

Joel Black, Chair

“After five years of planning and negotiation to form a private sector standards-setting organization for state and local governmental entities, the Governmental Accounting Standards Board came into being when its five members were appointed by the trustees of the Financial Accounting Foundation and approved the Governmental Accounting Standards Advisory Council in May [1984].”

– **Jim Antonio**
Former GASB Chairman
1984–1995

MEMBERS OF THE GASB

James E. Brown
Board Member

Carolyn Smith
Board Member

Dianne E. Ray
Board Member

Alan Skelton
Director of Research
and Technical Activities

Jeffrey J. Previdi
Vice Chair

Brian W. Caputo
Board Member

Joel Black
Chair

Kristopher E. Knight
Board Member

2021 GASB HIGHLIGHTS

Final Statements and Implementation Guides

- The Annual Comprehensive Financial Report
- Implementation Guide No. 2021-1, Implementation Guidance Update—2021

Exposure Drafts

- Compensated Absences
- The Annual Comprehensive Financial Report
- Accounting Changes and Error Corrections
- Omnibus 20XX
- Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements (Revised Exposure Draft)

Advisory Groups

Advisory groups, consultative groups, and task forces provide additional issue-specific input and feedback to the GASB. More information about the GASAC, GASB consultative groups, and GASB task forces is available by clicking the icons below.

GASAC

The Governmental Accounting Standards Advisory Council

is responsible for consulting with the GASB on technical issues on the Board's agenda, project priorities, selection/organization of task forces, and other matters.

GASB

GASB Consultative Groups

are assembled at the discretion of the GASB chair for pre-agenda research that is expected to be extensive and to address a broad or fundamental portion of the accounting and financial reporting standards and certain practice issue projects.

GASB

GASB Task Forces

are assembled for most major projects and serve as a sounding board as a project progresses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Contents

The Financial Accounting Foundation (FAF), the Financial Accounting Standards Board (FASB), and the Governmental Accounting Standards Board (GASB) are committed to the development of high-quality financial accounting and reporting standards through an independent and open process that results in useful financial information, considers all stakeholder views, and ensures public accountability.

The FAF is responsible for the oversight, administration, financing, and appointment of the FASB and the GASB, and respective advisory councils, the Financial Accounting Standards Advisory Council (FASAC), the Private Company Council (PCC), and the Governmental Accounting Standards Advisory Council (GASAC). The FAF obtains its funding from three sources:

- Accounting support fees that finance FASB operating and capital expenses pursuant to Section 109 of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act);
- Accounting support fees that finance GASB operating and capital expenses pursuant to Section 978 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act); and
- Sales and licensing of copyrighted FASB and GASB content.

Program and support expenses are funded by accounting support fees and by voluntary Reserve Fund contributions, which are determined during our annual budgeting process.

The FAF established the Reserve Fund to: (1) provide the FAF with sufficient reserves to fund budgeted current expenditures that are not otherwise funded by operating revenue (principally, accounting support fees or publishing revenues); (2) fund the operations of the FASB, the GASB, and the FAF during any temporary or permanent funding transitions; (3) fund unforeseen contingencies; and (4) provide temporary funding of operations resulting from cash flow deficiencies (primarily related to timing of accounting support fees collections, provided that the Reserve Fund will be replenished within a reasonably short period of time).

FAF's current policy is to maintain a target Reserve Fund balance equal to one year of budgeted gross expenses for the entire organization. If the projected year-end Reserve Fund balance exceeds the year-end target Reserve Fund, the FAF has historically voluntarily contributed this excess amount to fund the FASB's and GASB's budgeted recoverable expenses that otherwise would have been funded by accounting support fees.

The next sections provide certain 2021 financial highlights and management's discussion and should be read in conjunction with the FAF's audited financial statements that follow.

2021 Summary

The FAF's net assets increased by $3.8 million in 2021 as operating revenues exceeded operating expenses by $4.3 million. Total 2021 revenues and program and support expenses increased by 2% and 1%, respectively, from 2020. In both 2021 and 2020, the FAF's actual expenses were favorable compared to the 2021 budget, resulting in the excess of revenues over expenses. This favorable variance was largely driven by a reduction in travel, meeting, and other related costs due to the ongoing impact of the COVID-19 pandemic.

Standard-setting activities in 2021 related to the FASB's and the GASB's primary mission of improving financial accounting and reporting standards. These efforts included making improvements to U.S. GAAP while maintaining or increasing comparability with international accounting standards where possible, working with the PCC to improve the standard-setting process for private companies, and continuing the development of the GAAP Financial Reporting Taxonomy (Taxonomy) for eXtensible Business Reporting Language (XBRL) in the private sector. Significant activities and achievements relating to the FASB's and GASB's standard-setting mission during 2021 are described in greater detail in the FASB's and GASB's respective websites at FASB.org and GASB.org.

Program expenses also include publishing and delivering FASB and GASB standard-setting content. In 2021 and 2020, these include costs associated with the Content, Vision, & Enablement (CVE) Initiative. The CVE Initiative began with the objective of modernizing the publication and distribution of FASB and GASB standards. The project, which is expected to be completed in 2022, has three components:

1) Finalize and operationalize the organization's content distribution strategy;
2) Implement a new publishing platform with related integrations; and
3) Enable more streamlined business processes to support our content creation, production, and distribution.

The total CVE Initiative budget spanning 2018–2022 is $20.2 million, of which approximately $16.5 million has been expended through December 31, 2021. A total of $8.9 million and $3.2 million were expended in 2021 and 2020, respectively, including both operating expenses and capital.

2021 Financial Results

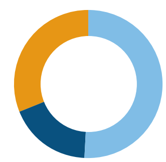
The FAF's financial statements are presented in accordance with GAAP and reflect the specific reporting requirements of not-for-profit organizations.

Statements of Activities

The following charts display the sources of revenues and the program and support expenses for 2021 and 2020:

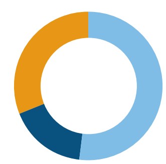
2021 Sources of Revenues

- FASB Accounting Support Fees 51%
- GASB Accounting Support Fees 18%
- Publishing 31%



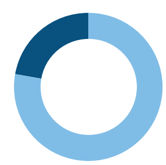
2020 Sources of Revenues

- FASB Accounting Support Fees 52%
- GASB Accounting Support Fees 17%
- Publishing 31%



2021 Expenses

- Program—Standard Setting and Publishing 78%
- Support 22%



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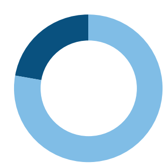


FASB Accounting Support Fees

FASB accounting support fees are assessed upon issuers, as defined by the Sarbanes-Oxley Act, to fund the expenses and other cash requirements of the FASB's standard-setting activities, as reflected in the FAF's annual operating and capital budget—the FASB recoverable expenses.

Equity issuers and investment company issuers are assessed a share of the accounting support fees based upon their relative average monthly market capitalization, subject to minimum capitalization thresholds. The FAF has retained the Public Company Accounting Oversight Board (PCAOB) as its agent for invoicing and collecting FASB accounting support fees, which were $31.4 million in 2021 and $31.3 million in 2020. As previously noted, the FAF voluntarily contributes a formula-based amount from the Reserve Fund to offset FASB recoverable expenses that would otherwise be funded by accounting support fees. The FAF paid the PCAOB approximately $209,000 per year for collection services, which is included as part of operating support expenses, in 2021 and 2020.

The Office of Management and Budget (OMB) has determined that the FASB accounting support fee is subject to sequestration pursuant to the Budget Control Act of 2011 (BCA). Sequestration amounts are based on the federal government's fiscal year, which, for the 2021 sequestration, began on October 1, 2020, and ended on September 30, 2021. During 2021, approximately $1.8 million was sequestered with respect to the FASB accounting support fee. The OMB notified the FAF that the 2021 sequestered funds were available for spending for the 2022 federal fiscal year, which began October 1, 2021. The FAF understands that the FASB accounting support fee for federal fiscal year 2022 will be subject to sequestration in a similar manner.

GASB Accounting Support Fees

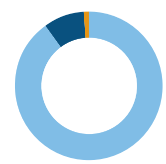
Pursuant to the Dodd-Frank Act, in 2012, the SEC issued an order approving a proposed rule change to the by-laws of the Financial Industry Regulatory Authority (FINRA) to establish an accounting support fee to fund the annual budget of the GASB, including rules and procedures to provide for the equitable allocation, assessment, and collection of the GASB accounting support fee from FINRA members. As previously noted, the FAF voluntarily contributes a formula-based amount from the Reserve Fund to offset GASB recoverable expenses that would otherwise be funded by accounting support fees. FINRA collects the GASB accounting support fee quarterly from member firms that report trades to the Municipal Securities Rulemaking Board (MSRB). Each member firm's assessment is based on the member firm's portion of the total par value of municipal securities transactions reported by FINRA member firms to the MSRB during the previous quarter. GASB accounting support fees were $10.7 million in 2021 and $10.0 million in 2020. The FAF paid FINRA $30,000 per year for collection services, which is included as part of operating support expenses, in 2021 and 2020.

Publishing Revenue

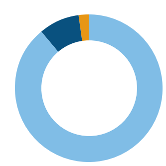
Publishing revenue for FASB and GASB product offerings is presented in the statements of activities on a combined basis. As noted below, gross revenues year to year have been positively impacted by price increases for FASB and GASB products but offset by a decreasing number of commercial sublicensees and direct subscribers to online and print subscriptions. Gross revenues for FASB and GASB product offerings are separately displayed in the charts below for 2021 and 2020.

FASB Publishing (dollars in thousands)

2021		
License Fees	90%	$15,609
Codification Online Subscriptions	9%	$1,513
Print subscriptions, hard copy and other	1%	$264
Total	**100%**	**$17,386**



2020		
License Fees	89%	$15,042
Codification Online Subscriptions	9%	$1,564
Print subscriptions, hard copy and other	2%	$325
Total	**100%**	**$16,931**



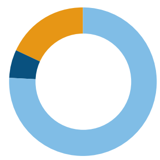
The FAF licenses the content of the *FASB Accounting Standards Codification®* (FASB Codification) to commercial publishers and others for inclusion in their proprietary, comprehensive, online research systems, and in additional products. The FASB Codification also is directly accessible through an online platform and can be viewed either through a free Basic View or as an annual paid subscription to the Professional View that provides advanced functionality and navigation. The FAF also sells a bound edition of the FASB Codification and provides The FASB Subscription, an annual paid service that includes the distribution of printed copies of FASB Accounting Standards Updates (ASUs) when issued.

FASB revenues totaled $17.4 million in 2021 and $16.9 million in 2020. This net change reflects increases in product prices, offset by a decrease in the number of FASB Codification subscribers and demand for print products.

GASB Publishing (dollars in thousands)

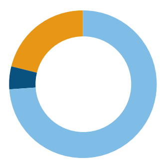
2021

License Fees	76%	$1,238
GARS Online Subscriptions	6%	$92
Print subscriptions, hard copy and other	18%	$296
Total	**100%**	**$1,626**



2020

License Fees	74%	$1,256
GARS Online Subscriptions	5%	$90
Print subscriptions, hard copy and other	21%	$345
Total	**100%**	**$1,691**



The FAF licenses GASB materials to commercial publishers and others for inclusion in their proprietary, comprehensive, online research systems, and in additional products. GASB materials are also directly accessible online through the Governmental Accounting Research System (GARS). GARS Online can be viewed either through a free Basic View or as an annual paid subscription to the Professional View that provides advanced functionality and navigation. GASB print subscriptions consist of The GASB Subscription (consisting of final documents as they are issued). In addition, the FAF sells bound editions of the GASB Codification, GASB Original Pronouncements, and the GASB Comprehensive Implementation Guide, as well as hard copies of individual pronouncements, User Guides, Research Reports, and other documents. GASB publishing revenues totaled $1.6 million in 2021 and $1.7 million in 2020. This net change reflects increases in product prices, offset by a decrease in the number of commercial publisher sublicensees, subscribers to print subscriptions, and demand for print products.

Program and Support Expenses

The FAF's operating program expenses, which comprise the standard-setting activities of the FASB and the GASB and FAF publishing activities totaled $45.0 million in 2021. This is a 2% increase from 2020 and primarily related to program salaries and benefits (comprising over 80% of total program expenses), which increased 3% primarily related to annual salary rate increases.

The FAF's operating support expenses totaled $12.3 million in 2021, a decrease of 1% from 2020.

Investment Income

The FAF's Reserve Fund, held primarily in money market and fixed income mutual funds, experienced net investment loss of $93,000 in 2021, compared to net investment income of $1.7 million in 2020, resulting from poor market conditions for these investments.

Other Components of Net Period Pension Cost and Other Pension-Related Changes Not Reflected in Operating Expenses

Other components of net period pension cost include all components of net periodic benefit costs other than service costs, which are included in operating expenses. The FAF recorded nonoperating decreases in net assets of $41,000 and $64,000 in 2021 and 2020, respectively.

Other pension-related changes are nonoperating adjustments to record the change in the funded status of the Employees' Pension Plan and the Postretirement Plan. Pension-related changes are determined by comparing the fair value of plan assets against the actuarially determined amount of benefit obligations. The FAF recorded nonoperating (decrease) increase in net assets of ($353,000) and $909,000 for 2021 and 2020, respectively. Factors impacting the amount of pension-related changes include actuarial gains or losses resulting from actual investment return compared to actuarially expected return, offset by the impact of changes to the discount rate. In 2021, pension-related changes also reflected a change in mortality assumptions for the plan.

Statements of Financial Position

Reserve Fund Investments

Reserve Fund investments totaled $62.5 million and $62.6 million as of December 31, 2021 and 2020, respectively. The Reserve Fund's assets were invested in approximately equal proportions in a money market mutual fund and a short-term, high-credit quality, fixed income mutual fund. An amount equal to the Reserve Fund balance is reflected as a separate Board-designated component of net assets without donor restrictions.

Accounting support fee assessments in 2021 and 2020 were offset by voluntary Reserve Fund contributions of $12.0 million and $10.9 million, respectively. These amounts are primarily derived from net publishing revenues but also benefited from favorable variances in revenues and expenses between budget and actual that carry over from the prior year and other items that affect the balance of the Reserve Fund.

Accounting Support Fees, Publishing, and Other Receivables

Receivables as of December 31, 2021 and 2020 primarily included $5.8 million and $4.4 million of license fees, respectively, and $2.8 million of GASB accounting support fees each year. The remaining balance primarily related to other publishing revenues.

Operating Lease Right of Use (ROU) Assets and Operating Lease Liabilities

Operating lease ROU assets and liabilities include the recognition of operating leases for office space in Norwalk (main office) and Washington, D.C. and for equipment as detailed in Note 8 to the financial statements. As further described in Note 8, the FAF entered into a lease agreement for new office, which will commence in early 2022.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses increased from $3.0 million as of December 31, 2020 to $7.2 million as of December 31, 2021, primarily related to amounts accrued for work completed against milestone payments due in 2022 for the CVE Initiative.

Accrued Postretirement Health Care Costs and Accrued Pension Costs

The funded status of the Postretirement Plan amounted to a $921,000 net liability in 2021, compared to a net liability of $1.0 million in 2020. The funded status of the Employees' Pension Plan amounted to a $1.5 million net liability in 2021, compared to a net liability of $575,000 in 2020. The change in funded status of each plan is impacted by a combination of a change in mortality assumptions, changes in discount rate, and investment performance.

2022 Outlook

After over 30 years at our current headquarters, the FAF has signed a lease for new office space and will be moving in 2022. This will result in a significant capital investment to build out the office space and provide upgrades to technology infrastructure. To alleviate the impact these one-time costs will have on accounting support fees, the FAF will fund a portion of these costs through temporary funding from the FAF's Reserve Fund, which will be repaid through accounting support fees billed in future years.

In addition, as previously noted, the CVE Initiative solution implementation will be completed in 2022. The new platform replaces aging and outdated technology and will help to ensure a reliable and stable platform to support our standard-setting operations.

To celebrate the 50th anniversary of the founding of the FAF in 1972, the organization will undertake a communications campaign to highlight the importance of an independent standard-setting process. The campaign is designed to transition easily to a celebration of the 50th anniversary of the FASB in 2023 and the 40th anniversary of the GASB in 2024.

STATEMENTS OF ACTIVITIES

For the years ended December 31 (dollars in thousands)	2021	2020
Operating:		
Revenues:		
Accounting support fees:		
FASB	$ 31,439	$ 31,333
GASB	10,707	10,022
Total accounting support fees	42,146	41,355
Publishing (Note 2)	19,012	18,622
Contributions—contributed services	192	180
Total revenues	61,350	60,157
Program expenses (Note 4):		
Standard setting:		
FASB	30,370	29,932
GASB	9,101	8,990
Total standard setting	39,471	38,922
Publishing	5,225	4,972
Total program expenses	44,696	43,894
Support expenses (Note 4)	12,359	12,464
Total program and support expenses	57,055	56,358
Operating revenues greater than operating expenses	4,295	3,799
Nonoperating:		
Net investment income — short-term investments (Note 5)	37	63
Net investment (loss) income — Reserve Fund (Note 5)	(93)	1,670
Other components of net periodic benefit cost (Note 6)	(41)	(64)
Other pension-related changes not reflected in operating expenses (Note 6)	(353)	909
Change in net assets without donor restrictions	3,845	6,377
Net assets at beginning of year	79,800	73,423
Net assets at end of year	$ 83,645	$79,800

See accompanying notes to these financial statements.

STATEMENTS OF FINANCIAL POSITION

For the years ended December 31 (dollars in thousands)	2021	2020
Current assets:		
Cash and cash equivalents	$ 6,441	$ 7,097
Short-term investments (Note 5)	9,279	9,278
Accounting support fee, publishing, and other receivables (net of allowance for doubtful accounts of $123 and $101)	8,848	7,303
Prepaid expenses and all other current assets	931	1,144
Total current assets	25,499	24,822
Noncurrent assets:		
Reserve Fund investments (Note 5)	62,502	62,595
Assets held in trust (Note 6)	3,272	3,167
Operating lease right-of-use assets (Note 8)	810	1,922
Furniture, equipment, software, and leasehold improvements, net (Note 7)	13,883	5,862
Total noncurrent assets	80,467	73,546
Total assets	$105,966	$98,368
Current liabilities:		
Accounts payable and accrued expenses	$ 7,214	$ 3,005
Accrued payroll and related benefits	1,532	1,460
Operating lease liability—current (Note 8)	1,207	1,648
Unearned publication and other deferred revenues (Note 2)	6,652	6,501
Total current liabilities	16,605	12,614
Noncurrent liabilities:		
Accrued pension costs (Note 6)	1,519	575
Accrued postretirement health care costs (Note 6)	921	1,001
Operating lease liabilities—long term (Note 8)	4	1,211
Other liabilities (Note 6)	3,272	3,167
Total noncurrent liabilities	5,716	5,954
Total liabilities	22,321	18,568
Net assets—without donor restrictions		
Designated by the Board for Reserve (Notes 3 and 5)	62,502	62,595
Undesignated	21,143	17,205
Total net assets without donor restrictions	83,645	79,800
Total liabilities and net assets	$105,966	$98,368

See accompanying notes to these financial statements.

STATEMENTS OF CASH FLOWS

For the years ended December 31 (dollars in thousands)	2021	2020
Cash flows from operating activities:		
Cash received from accounting support fees	$42,066	$ 41,285
Cash received from publishing sales	17,697	17,397
Interest and dividend income received	697	922
Cash paid to vendors, employees, and benefit plans	(51,582)	(52,836)
Net cash provided by operating activities	8,878	6,768
Cash flows from investing activities:		
Proceeds from sales of Reserve Fund investments	–	5,000
Purchases of Reserve Fund investments	(660)	(5,859)
Proceeds from sales of short-term investments	8,500	8,000
Purchases of short-term investments	(8,501)	(8,028)
Purchases of assets held in trust	(104)	(650)
Purchases of furniture, equipment, software, and leasehold improvements, net	(8,769)	(2,739)
Net cash used in investing activities	(9,534)	(4,276)
Net (decrease) increase in cash and equivalents	(656)	2,492
Cash and equivalents at beginning of year	7,097	4,605
Cash and equivalents at end of year	$ 6,441	$ 7,097
Supplemental information		
Noncash items included in the Statement of Activities:		
Pension-related changes not reflected in operating expenses	$ (353)	$ 909
Component of net periodic benefit costs not reflected in operating expenses	$ (41)	$ (64)

See accompanying notes to these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Nature of Activities and Summary of Significant Accounting Policies

Activities

The Financial Accounting Foundation (FAF), incorporated in 1972, is the independent, private-sector not-for-profit, non-stock corporation with responsibility for establishing and improving financial accounting and reporting standards, through an independent and open process, and educating stakeholders about those standards. The FAF is responsible for the oversight, administration, finances, and appointment of the members of:

- The Financial Accounting Standards Board (FASB), which establishes standards of financial accounting and reporting for nongovernmental entities, and the Financial Accounting Standards Advisory Council (FASAC) and Private Company Council (PCC)
- The Governmental Accounting Standards Board (GASB), which establishes standards of financial accounting and reporting for state and local governmental entities, and the Governmental Accounting Standards Advisory Council (GASAC).

The FAF was incorporated under Delaware General Corporation Law to operate exclusively for charitable, educational, scientific, and literary purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code, as amended (Code). The FAF obtains its funding from accounting support fees pursuant to Section 109 of the Sarbanes-Oxley Act of 2002, as amended (Sarbanes-Oxley Act), in support of the FASB; accounting support fees pursuant to Section 978 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) in support of the GASB; and publishing revenues.

Summary of Significant Accounting Policies

Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

These statements include the program activities of standard setting of the FASB and the GASB (Standards Boards) (set forth separately, where appropriate, in recognition of their distinct responsibilities as described in the FAF's Certificate of Incorporation and By-Laws) and publishing. Standard-setting program expenses include salaries, benefits, and other operating expenses for the members and research staffs of the respective Standards Boards and Councils, costs for the ongoing development of the U.S. GAAP Financial Reporting Taxonomy, costs for external relations, government affairs and communications activities, and for the information research and technology related to the standard-setting activities of the FASB and the GASB. Publishing program costs represent the distinct activities of publishing and distributing the FASB and GASB standard-setting materials and include staff salaries and benefits, publishing information technology costs, printing, distribution, and other costs. Additional services for accounting and finance, human resources, facilities management, technology and information systems, legal, and general administrative operating assistance have been reflected as support expenses in the accompanying statements of activities.

All of the net assets of the FAF are classified as without donor restrictions and are segregated into FAF Board of Trustee (FAF Board) designated and undesignated categories (see Note 2).

Use of Estimates

The preparation of financial statements requires management to formulate estimates and assumptions that may affect the reported amounts of assets and liabilities at the dates of those statements and revenues and expenses for the reporting periods. Significant estimates made by management include actuarially determined employee benefit liabilities and the fair value of investments. Actual results could differ from those estimates.

Revenue Recognition

Publishing

Publishing revenue includes sales of printed content (primarily annual editions of authoritative FASB and GASB GAAP), subscriptions for authoritative print content, subscriptions for digital access to authoritative content, and licensing of content.

The FAF assesses the obligations promised in its contracts with customers and identifies a performance obligation for each promise to transfer goods or services. To identify the performance obligations, the FAF considers all the promises in the contract, whether explicitly stated or implied, based on customary business practices. Revenue is recognized when a performance obligation is satisfied by transferring control of promised goods or services to customers, which can occur over time or at a point in time.

All of the FAF's contracts with customers, including sales- or usage-based royalty agreements, include performance obligations that are short term in nature.

Sales taxes collected on behalf of third parties are excluded from revenue and recorded as a liability until paid. Shipping fees charged to customers are excluded from revenue and netted against shipping expenses. There are no obligations for warranties, returns, or refunds to customers.

Accounting Support Fees

The Sarbanes-Oxley Act provides for funding of FASB through accounting support fees assessed against and collected from issuers of securities, as defined in the Sarbanes-Oxley Act. The FASB accounting support fees are reviewed by the U.S. Securities and Exchange Commission (SEC) each year. The Dodd-Frank Act provides for funding of GASB through an SEC order instructing the Financial Industry Regulatory Authority (FINRA) to establish, assess, and collect accounting support fees from its members.

Accounting support fees are recognized as revenue in the year for which those accounting support fees have been assessed as prescribed by the Sarbanes-Oxley Act and Dodd-Frank Act. Accounting support fees are reflected as without donor restrictions because the restrictions have been met in the same reporting period as the revenue is recognized.

The accounting support fees provide funding for recoverable expenses associated with the FASB's and the GASB's standard-setting activities as identified in the FAF's operating and capital budget for each calendar year. Recoverable expenses do not include Trustee and oversight expenses. The FAF's budgeted recoverable expenses for each Standards Board are statutorily eligible for funding by accounting support fees. However, on a voluntary basis, the FAF has applied any Reserve Funds in excess of a formula-based target amount to reduce what the FAF would otherwise be entitled to collect in accounting support fees.

TThe Office of Management and Budget (OMB) has determined that the FASB is subject to sequestration pursuant to the Budget Control Act of 2011 (BCA). Sequestration amounts are determined on the federal government's fiscal year, which for the 2021 sequestration began on October 1, 2020 and ended on September 30, 2021. During 2021, $1,795,000 was sequestered with respect to the FASB accounting support fees. The OMB notified the FAF that the 2021 sequestered funds were available for spending for the 2021 federal fiscal year, which began October 1, 2021, and as a result no restrictions existed at December 31, 2021. The FAF understands that the FASB accounting support fees for federal fiscal year 2022 will be subject to sequestration in a similar manner.

Contributions

The FAF reports all contributions as increases in net assets without donor restrictions. Members of the Board of Trustees are eligible for compensation for their services, with each having the right to waive such compensation. The accompanying financial statements reflect the value of waived Trustee compensation, which meets the criteria for recognition as contributed services. Other individuals contribute significant amounts of time to the activities of the FAF, the Standards Boards, and their Advisory Councils without compensation; however, these are not included as contributions in the accompanying financial statements because they do not meet the recognition criteria.

Cash and Cash Equivalents

For financial statement purposes, the FAF considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The carrying value of these investments approximates fair value due to the nature of the investments and the maturity period.

Investments

The FAF's investments are recorded at fair value, all of which are measured using Level 1 inputs, which are defined as quoted market prices in active

NOTES TO THE FINANCIAL STATEMENTS

markets for identical investments. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Net appreciation or depreciation includes gains and losses on investments bought and sold as well as held during the year.

Concentration of Credit Risk

Financial instruments that potentially are subject to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments, and Reserve Fund investments. Short-term investments and Reserve Fund investments are held in various money market and fixed income mutual funds with a single high-credit-quality financial institution. The FAF has not experienced, nor does it anticipate, any credit-risk-related losses in such accounts.

Accounting Support Fees, Publishing, and Other Receivables

Receivables are carried at the amount billed or accrued, net of an allowance for doubtful accounts. The allowance for doubtful accounts is estimated based on management's review of historical experience and current economic conditions.

Employee Benefit Plans

The FAF sponsors a postretirement health care plan and a defined benefit pension plan. Information with respect to the funded positions of each of the FAF's pension and other postretirement plans at December 31, 2021 and 2020, is set forth in Note 6.

Furniture, Equipment, Software, and Leasehold Improvements

Furniture, equipment, software, and leasehold improvements are reported in the statements of financial position at cost, less accumulated depreciation and amortization determined using the straight-line method. Furniture, equipment, and software are depreciated over their estimated useful lives, ranging from 3 to 10 years. Leasehold improvements are amortized over periods not extending beyond the termination dates of the leases for office space.

Income Taxes

The FAF is a tax-exempt organization under Section 501(c)(3) of the Code. Management has reviewed tax positions for open tax years and determined that a provision for uncertain tax positions is not required.

Leases

The FAF determines whether an arrangement is a lease at inception of a contract. Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities (current and long term) on the statements of financial position. Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term. As a practical expedient, FAF used a risk-free rate in determining the present value of future payments for all of its leases. The FAF recognizes ROU assets subject to operating leases in an amount equal to the operating lease liabilities, adjusted for deferred lease expense and incentives. Lease expense is recognized on a straight-line basis over the lease term. Total fixed operating lease expenses are recognized on a straight-line basis over the lease term. Variable lease payments are recognized in the period in which the obligation for those payments is incurred. Variable lease payments are determined primarily on the basis of costs incurred by the landlord for taxes, insurance, and operating and maintenance services provided. The FAF has elected the practical expedient to not separate nonlease components (primarily operating and maintenance services associated with the FAF's Norwalk office space) from lease components (the right to use the underlying asset) and instead account for those components as single lease components for all of its leases.

Subsequent Events

The FAF has evaluated subsequent events through March 18, 2022, the date through which the financial statements are available to be issued, and determined that no events subsequent to year-end have occurred that require adjustment to, or disclosure in, the financial statements.

2. Publishing

All of the FAF's revenue from contracts with customers is recognized within publishing revenue. The following table presents these revenues disaggregated between FASB and GASB products type and by revenue stream (dollars in thousands):

	2021			2020		
Years ended December 31	FASB	GASB	Total	FASB	GASB	Total
Licensing	$15,609	$1,238	$16,847	$15,042	$1,256	$16,298
Online subscriptions	1,513	92	1,605	1,564	90	1,654
Print subscriptions	165	247	412	206	287	493
Hard copy and other	99	49	148	119	58	177
Total	$17,386	$1,626	$19,012	$16,931	$1,691	$18,622

Licensing—FAF has entered into various licensing agreements that provide certain third-parties limited rights to utilize the FAF's intellectual property (IP), consisting of FASB and GASB content. Certain licenses include quarterly upfront payments based on the number of internal users and annual payments for the number of active sublicenses at the beginning of the contract period. The FAF recognizes revenue rateably over the term of the agreements because the obligation to provide the licensees with access to the most current version of the content is a single performance obligation satisfied over time.

Other license agreements also include quarterly payments based on the number of new or renewal sublicensee agreements entered into by the licensee for that quarter. The FAF recognizes the quarterly revenue on a straight-line basis over a 12-month period because the obligation to provide the licensees with access to the content is a single performance obligation satisfied over time. The FAF also recognizes revenue under these agreements for the amounts due and not yet paid pursuant to the terms of the contracts.

Online subscriptions—The FAF sells annual prepaid subscriptions for access to the *FASB Accounting Standards Codification*® and GASB Governmental Accounting Research System (which includes the GASB Codification, Original Pronouncements, and Comprehensive Implementation Guide) through Professional View online platforms. Access to these platforms is determined to be a single performance obligation that is satisfied over the annual subscription period. Subscription revenues are deferred at the time of sale and are recognized rateably over the terms of the subscriptions.

Print subscriptions—The FAF sells annual prepaid subscriptions for a monthly distribution of printed copies of all FASB Accounting Standards Updates released during the previous month (FASB Subscription) and periodic distribution of printed copies of newly issued GASB Statements, Concepts Statements, Implementation Guides, and Technical Bulletins (GASB Subscription). These subscription services are determined to be a single performance obligation that is satisfied over the annual subscription period. Subscription revenues are deferred at the time of sale and are recognized rateably over the terms of the subscriptions.

Revenue from sales of individual hard copy publications is generally recognized upon shipment.

Significant judgments—Determining the number of promised services in a contract requires significant judgment. Licensing agreements provide customers with access to the latest, most current version of the accounting guidance. Revenue is recognized rateably over the contract term.

The following table presents contract liabilities (deferred revenues) by revenue stream, as reflected in the statements of financial position, which include amounts received or due in excess of revenue recognized (dollars in thousands):

	2021	2020
Licensing	$ 5,531	$ 5,382
Online subscriptions	861	829
Print subscriptions	260	290
	$ 6,652	$ 6,501

NOTES TO THE FINANCIAL STATEMENTS

3. Liquidity and Availability of Financial Assets

The primary sources of funding for the FAF, FASB, and GASB general expenditures are FASB and GASB accounting support fees and publishing revenues. FASB accounting support fees are billed annually and GASB accounting support fees are billed quarterly. Together, these fees accounted for $42.1 million or 69 percent, and $41.4 million or 69 percent, of the funding of the FAF in 2021 and 2020, respectively. The following table reflects the financial assets as of December 31, 2021 and 2020, reduced by the amounts that are not available to meet general expenditures within one year of the statements of financial position because of FAF Board designations (dollars in thousands):

At December 31	2021	2020
Cash and cash equivalents	$ 6,441	$ 7,097
Investments (short-term and Reserve Fund)	71,781	71,873
Accounting support fees, publishing, and other receivables	8,848	7,303
Financial assets available before Board designations	87,070	86,273
Less: Board-designated Reserve Fund	62,502	62,595
Financial assets available to meet cash needs for general expenditures within one year	$24,568	$ 23,678

As part of liquidity management, the FAF maintains both cash and short-term investments. There is also the FAF Board-designated Reserve Fund to: (1) provide the FAF with sufficient reserves to fund budgeted current expenditures that are not otherwise funded by operating revenue (principally, accounting support fees and publishing revenues); (2) fund the operations of the FASB, the GASB, and the FAF during any temporary or permanent funding transitions; (3) fund unforeseen contingencies; and (4) provide temporary funding of operations resulting from cash flow deficiencies (primarily related to timing of accounting support fees collections, provided that the Reserve Fund will be replenished within a reasonable short period of time). Reserve Fund assets are maintained within the investment policies and guidelines for the Reserve Fund established by the Audit and Finance Committee of the Board of Trustees.

4. Program and Support Expenses

The following table presents expenses by both their nature and functions for the years ended December 31, 2021 and 2020 (dollars in thousands):

	Program						
	Standard-Setting						
Year ended December 31, 2021	FASB	GASB	Total	Publishing	Total Program	Support	Total Expenses
Salaries and wages	$21,201	$6,346	$27,547	$1,762	$29,309	$5,062	$34,371
Employee benefits	5,117	1,317	6,434	467	6,901	1,466	8,367
Occupancy and equipment expenses	1,094	306	1,400	145	1,545	732	2,277
Depreciation and amortization	476	4	480	51	531	217	748
Information technology fees	1,001	228	1,229	2,527	3,756	438	4,194
Professional fees—other	774	510	1,284	–	1,284	3,220	4,504
Printing and shipping	–	–	–	204	204	–	204
Other operating expenses	707	390	1,097	69	1,166	1,224	2,390
Total operating program and support expenses	30,370	9,101	39,471	5,225	44,696	12,359	57,055
Net periodic benefit costs other than service cost	45	17	62	–	62	(21)	41
Total expenses	$30,415	$9,118	$39,533	$5,225	$44,758	$12,338	$57,096
Year ended December 31, 2020							
Salaries and wages	$20,572	$6,173	$26,745	$1,684	$28,429	$4,697	$33,126
Employee benefits	4,902	1,318	6,220	448	6,668	1,440	8,108
Occupancy and equipment expenses	1,108	311	1,419	147	1,566	795	2,361
Depreciation and amortization	426	6	432	51	483	218	701
Information technology fees	1,222	271	1,493	2,334	3,827	472	4,299
Professional fees—other	1,010	618	1,628	3	1,631	3,635	5,266
Printing and shipping	–	–	–	235	235	–	235
Other operating expenses	692	293	985	70	1,055	1,207	2,262
Total operating program and support expenses	29,932	8,990	38,922	4,972	43,894	12,464	56,358
Net periodic benefit costs other than service cost	46	17	63	–	63	1	64
Total expenses	$29,978	$9,007	$38,985	$4,972	$43,957	$12,465	$56,422

The financial statements report certain categories of expenses that are attributable to the various expense functions. Therefore, these expenses required allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, occupancy and equipment expenses, and information technology, which are allocated based on percentage of headcount or square footage basis, while certain salaries and benefit costs are allocated based on estimated level of effort.

NOTES TO THE FINANCIAL STATEMENTS

5. Investments and Investment Income and Losses

Investments

The following table presents investments measured at fair value, all of which are measured using Level 1 inputs (dollars in thousands):

At December 31	2021	2020
Short-term:		
Money market mutual fund	$ 9,279	$ 9,278
Reserve Fund:		
Fixed income mutual fund	$ 30,976	$ 30,973
Money market mutual fund	31,526	31,622
	$ 62,502	$ 62,595

Net investment income (dollars in thousands):

Years ended December 31	2021	2020
Short-term:		
Interest and dividends	$ 37	$ 63
Reserve Fund:		
Interest and dividends	$ 545	$ 859
Net realized and unrealized (loss) gains	(638)	811
Total Reserve Fund net investment (loss) income	$ (93)	$ 1,670

Changes in the Reserve Fund balance for the past two years are as follows (dollars in thousands):

Years ended December 31	2021	2020
Fund balance, beginning of year	$ 62,595	$ 60,925
Net investment (loss) income	(93)	1,670
Fund balance, end of year	$ 62,502	$ 62,595

6. Employee Benefits

Employee benefits expense consists principally of health care benefits for active and retired employees, pension benefits, and employer payroll taxes.

Pension Plans

The FAF sponsors a contributory defined contribution plan (the Employees' Tax-Sheltered Annuity Plan) and a defined benefit pension plan (the Employees' Pension Plan). Effective January 1, 2008, the Employees' Pension Plan was closed to all new hires, and benefit accruals for participating employees ended as of December 31, 2013.

In 2021, the Employees' Pension Plan paid out $725,000 in lump sums, which triggered settlement accounting. This resulted in recognition of $224,000 of periodic benefit expense in 2021 for amounts previously deferred and recognized as pension-related changes not reflected in operating expenses.

The FAF maintains a 457(b) deferred compensation plan (457(b) Plan) to provide the ability to make tax-deferred contributions to employees whose annual base compensation exceeds the maximum compensation limit for qualified plan contributions under Code §401(a)(17). Contributions are made into a rabbi trust maintained by the FAF for each participating employee and remain assets of the FAF until distributed to the participant upon termination of their employment. The 457(b) Plan assets and related liabilities of $3,273,000 and $3,167,000 as of December 31, 2021 and 2020, respectively, are included as assets held in trust and other liabilities in the statements of financial position.

Employee benefits expense arising from the defined contribution plans was $3,038,000 and $3,052,000 for 2021 and 2020, respectively. Employer contributions to the plan are based on the employee's earnings level, with incremental increases based on the employee's age, and vest after 1.5 years of service.

Postretirement Health Coverage Plan

The FAF sponsors a postretirement health coverage plan (Postretirement Plan) for all eligible retirees of the FAF with benefits varying based on retirement age and years of service. Effective January 1, 2014, the Postretirement Plan was amended to limit the level of benefits that will be paid to current employees and new hires. Retiree benefits are limited for new hires after December 31, 2013, to the lesser of (1) the year-end 2013 calculated benefit amounts or (2) the calculated benefits offered during the year of retirement. Employees hired before January 1, 2014, are eligible for retiree benefits limited to the lesser of (1) health plan costs at 2013 calculated benefit amounts subject to a cap on potential annual increases not to exceed five percent per year or (2) calculated benefits offered during the year of retirement. Benefits for participants who were retired as of December 31, 2013, are not affected by these amendments. Effective January 1, 2020, the Postretirement Plan was closed to all new hires. The FAF funds retiree health care benefits through a Grantor Trust.

Assumptions

The principal actuarial assumptions used to determine periodic benefit costs and year-end benefit obligations for the Employees' Pension Plan and Postretirement Plan are as follows:

	Employees' Pension Plan		Postretirement Plan	
	2021	2020	2021	2020
Net periodic cost assumptions:				
Discount rate	2.10%	2.95%	2.35%	3.10%
Expected return on plan assets	2.85%	3.65%	5.80%	6.20%
Benefit obligation assumption:				
Discount rate	2.55%	2.10%	2.75%	2.35%

According to the provisions in the Postretirement Plan, benefit amounts for active participants as of December 31, 2013, have been assumed to increase 5.0 percent per year after 2013. No increases are assumed for active participants hired after 2013.

The expected long-term rates of return on plan assets assumptions were based upon a review of historical returns, and expectations and capabilities of future market performance.

In addition to assumptions in the above table, assumed mortality is also a key assumption in determining benefit obligations. The assumed mortality rates reflect the Society of Actuaries (SOA) published mortality table (Pri-2012) and MP-2021 projection scale and MP-2020 projection scale for December 31, 2021 and 2020, respectively.

NOTES TO THE FINANCIAL STATEMENTS

The following table sets forth the amounts recognized in the statements of financial position, the change in benefit obligations, the change in plan assets, funded status, and other information for the Employees' Pension Plan and Postretirement Plan (dollars in thousands):

	Employees' Pension Plan		Postretirement Plan	
	2021	2020	2021	2020
Change in benefit obligations:				
Benefit obligation, beginning of year	$27,565	$25,522	$21,206	$ 18,913
Service cost	–	–	694	638
Interest cost	548	713	493	579
Actuarial losses	411	2,507	282	1,459
Benefits paid	(1,191)	(1,177)	(531)	(452)
Settlements	(725)	–	–	–
Retiree contributions	–	–	63	69
Benefit obligation, end of year	$25,786	$27,565	$22,207	$21,206
Change in plan assets:				
Fair value of plan assets, beginning of year	$26,990	$24,876	$20,205	$ 17,775
Retiree contributions	–	–	63	70
Actual investment (loss) income on plan assets	(807)	3,291	1,549	2,812
Benefits paid	(1,191)	(1,177)	(531)	(452)
Settlements	(725)	–	–	–
Fair value of plan assets, end of year	24,267	26,990	21,286	20,205
Funded status at end of year	$ (1,519)	$ (575)	$ (921)	$ (1,001)
Amounts recognized in financial statements:				
Noncurrent liabilities	(1,519)	(575)	(921)	(1,001)
	$ (1,519)	$ (575)	$ (921)	$ (1,001)
Amounts recognized as pension-related changes not reflected as operating expenses:				
Net actuarial losses (gains)	$ 1,123	$ 73	$ (109)	$ (266)
Amortization of net actuarial losses	(487)	(492)	(269)	(319)
Amortization of net prior service costs	–	–	95	95
	$ 636	$ (419)	$ (283)	$ (490)
Amounts not yet recognized as components of net periodic benefit costs:				
Net actuarial losses	$ 7,978	$ 7,567	$ 2,117	$ 2,495
Net prior service credits	–	–	(223)	(317)
	$ 7,978	$ 7,567	$ 1,894	$ 2,178
Amounts expected to be recognized during the years ended December 31, 2022 and 2021:				
Amortization of net actuarial losses	$ 509	$ 487	$ 227	$ 269
Amortization of net prior service credits	–	–	(95)	(95)
	$ 509	$ 487	$ 132	$ 174

Plan Assets

Investment objectives and policies for the plan assets are established by the Audit and Finance Committee (Committee) of the FAF Board of Trustees. The overall long-term investment strategy for the Employees' Pension Plan and Postretirement Plan is to generate returns sufficient to meet obligations of plan participants and their beneficiaries at acceptable levels of risk by maintaining a high standard of portfolio quality and achieving proper diversification. The Committee has retained a professional investment manager for the assets of the employee benefit plans that maintains discretion over investment decisions, within asset allocation ranges recommended by the Committee.

The asset allocation for the Employees' Pension Plan, which is consistent with the target allocation established by the Committee, was 100 percent in fixed income investments as of December 31, 2021, and is based upon the funded status of the plan, valuation of the liability, and the returns and risks relative to the liability. The asset allocation policy for the Postretirement Plan reflects the target allocation of 50 percent in equity investments (which includes 50 percent of the equity holdings for international stocks) and 50 percent in fixed income investments.

The plan assets of the Employees' Pension Plan and Postretirement Plan were invested in mutual funds at December 31, 2021 and 2020, the majority of which were indexed. The following table presents the fair value of major categories of plan assets, all of which are measured using Level 1 inputs, as defined (dollars in thousands):

	Employees' Pension Plan		Postretirement Plan	
Fair Value of Plan Assets at December 31	2021	2020	2021	2020
Mutual funds (all Level 1):				
U.S. equity funds[a]	$ –	$ –	$ 5,630	$ 5,325
International equity index fund[b]	–	–	5,099	5,330
Fixed income funds[c]	24,164	26,895	10,557	9,550
Cash held by investment manager	103	95	–	–
Total	$ 24,267	$ 26,990	$ 21,286	$ 20,205

Descriptions of Funds:

(a) These funds invest in small-, mid-, and large-cap companies from diversified industries using a blend of growth and value strategies, and index sampling.

(b) This fund is passively managed and seeks to track the performance of international composite indexes. It has broad exposure across developed and emerging non-U.S. equity markets. Approximately 50% is invested in European companies.

(c) These funds are passively managed using index sampling and consist of intermediate-term and long-term mutual funds.

NOTES TO THE FINANCIAL STATEMENTS

Net Periodic Benefit Cost

The components of net periodic benefit cost for the past two years are as follows (dollars in thousands):

	Employees' Pension Plan		Postretirement Plan	
	2021	2020	2021	2020
Service cost	$ –	$ –	$ 694	$ 638
Interest cost	548	713	493	579
Expected return on plan assets	(728)	(858)	(1,157)	(1,086)
Amortization of prior period actuarial losses	487	492	269	319
Amortization of prior service credits	–	–	(95)	(95)
Net periodic benefit expense	307	347	204	355
Settlements	224	–	–	–
	$ 531	$ 347	$ 204	$ 355

The components of net periodic benefit cost other than the service costs component are reflected separately in the statements of activities.

The following benefit payments, which reflect expected future service, are projected to be paid under the FAF's benefit plans, including the amounts of Medicare Part D subsidies for the Postretirement Plan (dollars in thousands):

Years ended December 31	Employees' Pension Plan	Postretirement Plan
2022	$ 2,774	$ 505
2023	1,964	591
2024	2,039	662
2025	2,078	718
2026	1,625	786
2027–2031	7,332	4,751

The FAF does not expect to contribute to the Employees' Pension Plan or Postretirement Plan during 2022.

7. Furniture, Equipment, and Leasehold Improvements

Years ended December 31 (dollars in thousands)	2021	2020
Furniture and equipment	$ 9,682	$ 9,272
Leasehold improvements	5,655	5,654
Work in process—software and leasehold improvements	13,008	4,650
	28,345	19,576
Accumulated depreciation and amortization	(14,462)	(13,714)
	$ 13,883	$ 5,862

Work in process includes costs associated with developing a new publishing platform and initial upfront capital costs associated with new office space lease.

8. Leases

The FAF has operating leases for office space in Norwalk (main office) and Washington, D.C. and for equipment. Those leases have remaining lease terms of one year to less than two years.

Total fixed operating lease expense was $1,262,000 and $1,260,000 in 2021 and 2020, respectively. Total variable lease expense was $922,000 and $951,000 in 2021 and 2020, respectively. Cash paid for amounts included in the measurement of operating lease liabilities amounted to $1,784,000 and $1,772,000 in 2021 and 2020, respectively.

The weighted average remaining lease term is 0.8 years and 1.8 years in 2021 and 2020, respectively, and the weighted-average discount rate is 2.4 percent in both 2021 and 2020.

Operating lease maturities (dollars in thousands):

Years ended December 31	Undiscounted	Discounted
2022	$ 1,348	$ 1,207
2023	4	4
Total operating lease maturities	$ 1,352	$ 1,211

In December 2021, the FAF entered into a lease agreement for new office space in Norwalk. The lease commences in February 2022 with a term ending in July 2038. The contract requires both fixed and variable payments. The fixed payments, net of lease incentives to be paid in the future by the landlord, approximate $23 million. Variable payments will be based primarily on expenses incurred by the landlord associated with operating the office space and premises on which that space is located.

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees Financial Accounting Foundation,

Opinion

We have audited the financial statements of the Financial Accounting Foundation (FAF), which comprise the statements of financial position as of December 31, 2021 and 2020, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the FAF as of December 31, 2021 and 2020, and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the FAF and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the FAF's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable).

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the FAF's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the FAF's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

RSM US LLP

Hartford, Connecticut
March 18, 2022

WELCOME

During the past year, the FAF Board of Trustees and the FASB welcomed the following leaders.

FAF

Joined
January 2022

Manju Ganeriwala
Treasurer, Commonwealth of Virginia

FAF

Joined
January 2022

Edward J. Goldthorpe
Partner, Head of Credit for BC Partners

FAF

Joined
January 2022

W. Bryan Lewis
Vice President and Chief Investment Officer, United States Steel Corporation

FAF

Joined
January 2022

Diane C. Nordin
Former Partner and Director, Fixed Income, Wellington Management Company LLP

FASB

Joined
July 2021

Frederick L. Cannon
Former Director of Research and Chief Equity Strategist for Keefe, Bruyette & Woods, Inc.

THANK YOU

During the past year, the following FAF Trustees and FASB leaders concluded their work with us. On behalf of the entire organization, we thank them for their outstanding service.

FAF

Completed service
in December 2021

Susan J. Carter
Independent Director, BlackRock Multi-Asset Mutual Funds Board

FAF

Completed service
in December 2021

T. Eloise Foster
Chair, Maryland Supplemental Retirement Plans

FAF

Completed service
in December 2021

Anthony J. Dowd
President and Chief Executive Officer, Fairfield-Maxwell ltd.

FASB

Completed service
in June 2021

R. Harold Schroeder
Board Member, FASB

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

The FASB establishes financial accounting and reporting standards for public and private companies and not-for-profit organizations.

www.fasb.org

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

The GASB establishes financial accounting and reporting standards for U.S. state and local governments.

www.gasb.org

FAF FINANCIAL ACCOUNTING FOUNDATION

The FAF is the independent, private-sector, not-for-profit organization responsible for the oversight, administration, financing, and appointment of the FASB and the GASB.

www.accountingfoundation.org
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