FINANCIAL ACCOUNTING FOUNDATION

Financial Statements for the Years Ended

December 31, 2025 and 2024

FINANCIAL ACCOUNTING FOUNDATION

Financial Statements

for the Years Ended December 31, 2025 and 2024

Tel: 703-893-0600
Fax: 703-893-2766
www.bdo.com

8401 Greensboro Drive
Suite 800
McLean VA 22102

Independent Auditor's Report

Board of Trustees
Financial Accounting Foundation
801 Main Avenue
Norwalk, CT 06856

Opinion

We have audited the financial statements of the Financial Accounting Foundation (FAF), which comprise the statements of financial position as of December 31, 2025 and 2024, and 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, 2025 and 2024, and the results of its operations 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 available to be issued.

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.

BDO USA, P.C.

McLean, Virginia
March 3, 2026

Statements of Financial Position as of December 31, 2025 and 2024

(Dollars in thousands)	**2025**	2024
Current Assets:		
Cash and cash equivalents	**$ 8,697**	$ 8,436
Accounting support fees, licensing, and other receivables, net	**5,251**	8,758
Prepaid expenses and all other current assets	**2,441**	1,165
Total current assets	**16,389**	18,359
Noncurrent Assets:		
Reserve Fund investments (Note 5)	**99,633**	92,217
Prepaid postretirement health care costs (Note 6)	**4,088**	2,453
Assets held in trust (Note 6)	**5,340**	4,431
Operating lease right-of-use assets (Note 8)	**14,133**	15,065
Furniture, equipment, software, and leasehold improvements, net (Note 7)	**23,071**	28,555
Total noncurrent assets	**146,265**	142,721
Total assets	**$ 162,654**	$ 161,080
Current Liabilities:		
Accounts payable and accrued expenses	**$ 1,019**	$ 1,737
Accrued payroll and related benefits	**3,719**	2,943
Accrued pension costs (Note 6)	**-**	500
Operating lease liabilities—current (Note 8)	**1,543**	1,152
Unearned licensing revenue (Note 2)	**2,624**	3,533
Total current liabilities	**8,905**	9,865
Noncurrent Liabilities:		
Operating lease liabilities—long term (Note 8)	**23,803**	25,346
Other liabilities (Note 6)	**5,340**	4,431
Total noncurrent liabilities	**29,143**	29,777
Total liabilities	**38,048**	39,642
Net Assets—without Donor Restrictions		
Designated by the Board for Reserve (Notes 3 and 5)	**99,633**	92,217
Undesignated	**24,973**	29,221
Total net assets without donor restrictions	**124,606**	121,438
Total liabilities and net assets	**$ 162,654**	$ 161,080

See accompanying notes to these financial statements.

FINANCIAL ACCOUNTING FOUNDATION

Statements of Activities for the Years Ended December 31, 2025 and 2024

(Dollars in thousands)	2025	2024
Operating:		
Revenues:		
Accounting support fees:		
FASB	**$ 32,829**	$ 42,934
GASB	**17,298**	18,582
Total accounting support fees	**50,127**	61,516
Licensing (Note 2)	**20,608**	20,766
Contributions—contributed services	**210**	122
Total revenues	**70,945**	82,404
Program expenses (Note 4):		
Standard setting:		
FASB	**38,276**	36,390
GASB	**12,446**	11,741
Total standard setting	**50,722**	48,131
Publishing and licensing	**7,846**	9,798
Total program expenses	**58,568**	57,929
Support expenses (Note 4)	**16,635**	15,331
Total program and support expenses	**75,203**	73,260
Operating revenues (less) greater than operating expenses	**(4,258)**	9,144
Nonoperating:		
Net investment income - cash and cash equivalents (Note 5)	**25**	96
Net investment income - Reserve Fund (Note 5)	**4,916**	3,954
Pension and postretirement plan changes (Note 6)	**2,485**	1,210
Increase in net assets without donor restrictions	**3,168**	14,404
Net assets at beginning of year	**121,438**	107,034
Net assets at end of year	**$ 124,606**	$ 121,438

See accompanying notes to these financial statements.

Statements of Cash Flows for the Years Ended December 31, 2025 and 2024

(Dollars in thousands)	2025	2024
Cash flows from operating activities:		
Cash received from accounting support fees	**$ 50,518**	$ 60,559
Cash received from licensing	**22,816**	23,171
Interest and dividend income received	**4,182**	3,788
Cash paid to vendors, employees, and benefit plans	**(68,670)**	(61,974)
Net cash provided by operating activities	**8,846**	25,544
Cash flows from investing activities:		
Proceeds from sales of Reserve Fund investments	**12,500**	8,000
Purchases of Reserve Fund investments	**(19,157)**	(31,191)
Purchases of furniture, equipment, software, and leasehold improvements	**(1,928)**	(1,714)
Net cash used in investing activities	**(8,585)**	(24,905)
Net increase in cash and equivalents	**261**	639
Cash and cash equivalents at beginning of year	**8,436**	7,797
Cash and cash equivalents at end of year	**$ 8,697**	$ 8,436
Supplemental Information		
Noncash items included in the Statements of Activities:		
Pension changes not reflected in operating expenses	**$ (2,485)**	$ (1,210)
Right of use asset obtained in exchange for new operating lease liability	**$ -**	$ 951

See accompanying notes to these financial statements.

Notes to Financial Statements
December 31, 2025 and 2024

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); and
- 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 licensing 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 and licensing. 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 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 and licensing program expenses represent the distinct activities of publishing, licensing and distributing the FASB and GASB standard-setting materials and include staff salaries and benefits, publishing information technology costs, 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 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 3).

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

Licensing and sales

Licensing revenue includes licensing of FASB and GASB 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. 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 (ASFs) assessed against and collected from issuers of securities, as defined in the Sarbanes-Oxley Act. The FASB ASFs 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 GASB ASFs from its members.

ASFs 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.

The ASFs provide funding for recoverable expenses associated with standard-setting activities of the FASB and GASB as identified in the FAF's operating and capital budget for each calendar year. The FAF's budgeted recoverable expenses for each Standards Board are statutorily eligible for funding by ASFs. However, the FAF may apply reserve funds in excess of a formula-based target amount to reduce the amount the FAF would otherwise be entitled to collect in ASFs.

The 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 2025 sequestration began on October 1, 2024 and ended on September 30, 2025. During 2025, $1,860,000 was sequestered with respect to the FASB ASFs. The OMB notified the FAF that the 2025 sequestered funds were available for spending for the 2026 federal fiscal year, which began October 1, 2025, and as a result no restrictions existed at December 31, 2025. The FAF understands that the FASB ASFs for federal fiscal year 2026 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 and Chairs of the FASAC, PCC, and GASAC 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, valued based on FAF Board approved stipend amounts, 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 financial 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 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 and Reserve Fund investments. Reserve Fund investments are held in various money market and fixed income mutual funds with a single high-credit-quality financial institution. Amounts on deposit in excess of federally insured limits as of December 31, 2025 and 2024 approximated $8.2 million and $7.9 million, respectively. The FAF has not experienced, nor does it anticipate, any credit-risk-related losses in such accounts.

Accounting Support Fees, Licensing, and Other Receivables

Receivables are carried at the amount billed or accrued, net of an allowance for doubtful accounts. The allowance for doubtful accounts for licensing receivable is based on expected credit losses over the life of the financial assets and considers historical information, as well as current and future economic conditions and events. There was no allowance for credit losses for licensing receivable as of December 31, 2025 and 2024. The allowance for uncollectible accounting support fee receivables was $68,000 and $103,000 for the years ended December 31, 2025 and 2024, respectively.

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, 2025 and 2024, 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, including certain costs to develop, obtain, and implement FAF's internal use software, are depreciated over their estimated useful lives, ranging from 3 to 10 years. Leasehold improvements are amortized over the shorter of useful life of those leasehold improvements and the remaining lease term. FAF reviews the valuation of its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. No indicators of impairment were identified as of December 31, 2025 and 2024, respectively.

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. In addition, we have determined that the FAF is not subject to unrelated business income tax and have not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Leases

All of the FAF's leases are classified as operating leases and 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 liabilities are recognized based on the present value of the future minimum lease payments. 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. As a practical expedient, the FAF used a risk-free rate in determining the present value of future payments for all of its leases. 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. The FAF has elected the practical expedient not to separate nonlease components (primarily operating and maintenance services associated with the FAF's office leases) from lease components (the right to use the underlying asset) and instead to account for those components as single lease components for all of its leases.

Recent Accounting Pronouncements

In September 2025, the FASB amended guidance on internal-use software. This guidance clarifies disclosure requirements and establishes a principles-based framework for evaluating whether internal-use software development costs should be capitalized or expensed. The amended guidance is effective for annual periods beginning after December 15, 2027, with early adoption permitted. The FAF is currently evaluating the impact of this ASU on its financial statements.

Subsequent Events

The FAF has evaluated subsequent events through March 3, 2026, the date through which the financial statements are available to be issued. There were no events noted that required adjustment or disclosure in the financial statements.

2. Licensing

Licensing revenue for FASB and GASB content was $19,138,000 and $1,470,000 in 2025, and $19,191,000 and $1,575,000 in 2024, respectively.

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. Licenses include quarterly upfront payments based on the number of internal users and annual or semi-annual payments for the number of active sublicenses at the beginning of the contract period or upfront annual and semi-annual payments based on a fixed negotiated fee. The FAF recognizes revenue rateably over the term of the agreements using the output method 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 periodic payments based on the number of new or renewal sublicensee agreements entered into by the licensee for that period. The FAF recognizes the related revenue on a straight-line basis over a 12-month period using the output method 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.

*Significant Judgmen*ts

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.

Accounting support fees, licensing and other receivables in the statements of financial position include $746,000 and $3,936,000 as of December 31, 2025 and 2024, respectively, related to licensing.

Contract liabilities (unearned licensing and sales revenue), as reflected in the statements of financial position, include licensing revenues which include amounts received in excess of revenue recognized.

3. Liquidity and Availability of Financial Assets

The following table reflects the financial assets as of December 31, 2025 and 2024, 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	**2025**	2024
Cash and cash equivalents	**$ 8,697**	$ 8,436
Reserve Fund investments, portion designated for operating needs	**17,801**	17,980
Accounting support fees, licensing, and other receivables	**5,251**	8,758
Financial assets available to meet cash needs for general expenditures within one year	**$ 31,749**	$ 35,174

The primary sources of funding for the FAF, FASB, and GASB general expenditures are FASB and GASB ASFs and licensing revenues. FASB ASFs are billed annually and GASB ASFs are billed quarterly. Together, these fees accounted for $50.1 million or 71 percent, and $61.5 million or 75 percent, of the funding of the FAF in 2025 and 2024, respectively.

The general purpose of the FAF's Board-designated Reserve Fund is to: (1) provide temporary operating reserves for funding of operations resulting from cash flow deficiencies (primarily related to timing of ASFs collections, and on the assumption that the Reserve Fund will be replenished within a reasonable short period of time) (2) build and maintain adequate level of contingency reserves to support FAF's operations in the event of unforeseen funding shortfalls or significant unanticipated costs, and (3) provide flexibility to accumulate additional reserves to reduce future ASFs or provide internal financing for unusual or strategic capital outlays or for other appropriate business uses as may be approved by the FAF Board of Trustees. 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 function for the years ended December 31, 2025 and 2024, (dollars in thousands):

	Standard Setting			Publishing and	Total		Total
	FASB	GASB	Total	licensing	Program	Support	Expenses
Year Ended December 31, 2025							
Salaries and wages	**$ 25,021**	**$ 7,988**	**$ 33,009**	**$ 1,250**	**$ 34,259**	**$ 7,189**	**$ 41,448**
Employee benefits	**5,932**	**1,783**	**7,715**	**385**	**8,100**	**1,783**	**9,883**
Occupancy and equipment expenses	**1,352**	**484**	**1,836**	**-**	**1,836**	**1,025**	**2,861**
Depreciation and amortization	**2,197**	**763**	**2,960**	**3,216**	**6,176**	**1,236**	**7,412**
Information technology fees	**1,834**	**495**	**2,329**	**2,929**	**5,258**	**643**	**5,901**
Professional fees—other	**742**	**247**	**989**	**51**	**1,040**	**3,900**	**4,940**
Other operating expenses	**1,198**	**686**	**1,884**	**15**	**1,899**	**859**	**2,758**
Total operating program and support expenses	**38,276**	**12,446**	**50,722**	**7,846**	**58,568**	**16,635**	**75,203**
Net periodic benefit costs other than service cost	**(64)**	**(23)**	**(87)**	**-**	**(87)**	**(37)**	**(124)**
Total expenses	**$ 38,212**	**$ 12,423**	**$ 50,635**	**$ 7,846**	**$ 58,481**	**$ 16,598**	**$ 75,079**
Year Ended December 31, 2024							
Salaries and wages	$ 24,376	$ 7,759	$ 32,135	$ 1,241	$ 33,376	$ 6,624	$ 40,000
Employee benefits	5,576	1,654	7,230	355	7,585	1,691	9,276
Occupancy and equipment expenses	1,135	397	1,532	-	1,532	852	2,384
Depreciation and amortization	2,217	740	2,957	5,638	8,595	1,214	9,809
Information technology fees	1,557	381	1,938	2,459	4,397	400	4,797
Professional fees—other	436	230	666	78	744	3,652	4,396
Other operating expenses	1,093	580	1,673	27	1,700	898	2,598
Total operating program and support expenses	36,390	11,741	48,131	9,798	57,929	15,331	73,260
Net periodic benefit costs other than service cost	(43)	(15)	(58)	-	(58)	(25)	(83)
Total expenses	$ 36,347	$ 11,726	$ 48,073	$ 9,798	$ 57,871	$ 15,306	$ 73,177

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. FASB and GASB standard setting program expenses include an allocation of salaries, benefits and other costs for government relations and external affairs, communications activities, and information and technology services based on a percentage of headcount. Other expenses that are allocated among program and support functions include depreciation and amortization, and occupancy and equipment expenses, which likewise are allocated based on a percentage of headcount.

5. Investments and Net Investment Income

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	**2025**	2024
Reserve Fund:		
Fixed income mutual fund	**$ 39,253**	$ 36,731
Money market mutual fund	**60,380**	55,486
	$ 99,633	$ 92,217

Net investment income

(Dollars in thousands)

Years Ended December 31	**2025**	2024
Cash and cash equivalents:		
Interest and dividends	**$ 25**	$ 96
Reserve Fund:		
Interest and dividends	**$ 4,157**	$ 3,692
Net realized and unrealized income	**759**	262
	$ 4,916	$ 3,954

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

Years Ended December 31	**2025**	2024
Fund balance, beginning of year	**$ 92,217**	$ 68,763
Transfers from operations, net	**2,500**	19,500
Net investment income	**4,916**	3,954
Fund balance, end of year	**$ 99,633**	$ 92,217

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 or FAF 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. Effective April 30, 2024, the FAF Board of Trustees approved the termination of the FAF Plan. During the plan termination election window in 2025, participants not in payment status were given an opportunity to take a lump sum. Participants who did not elect a lump sum and other participants in payment status were transferred to the selected insurance company in late 2025 as part of a group annuity contract. As of December 31, 2025, the projected benefit obligation has been settled, and no participants remain in the Employee's Pension Plan. No additional cash contributions were made into the plan upon termination and a $99,000 surplus remained due back to the FAF and is included in other current receivables in the statement of financial position as of December 31, 2025. A settlement loss of $6.0 million was recognized in 2025 as part of nonoperating periodic pension expense with an offsetting increase in other nonoperating activities for the recognition of all actuarial losses accumulated through the date of plan termination.

The Tax-Sheltered Annuity Plan covers all employees of the FAF. All employees of the FAF are eligible to participate in the Plan for the purpose of making salary reduction contributions. FAF contributes amounts to eligible employees based on employees' compensation and ages.

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 $5,340,000 and $4,431,000 as of December 31, 2025 and 2024, respectively, are included as assets held in trust and other liabilities in the statements of financial position. The 457(b) Plan assets are invested in mutual funds and are measured at fair value using Level 1 inputs.

Employee benefits expense arising from the defined contribution plans was $4,326,000 and $4,034,000 for 2025 and 2024, 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, years of service and the year of retirement. 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	
	2025	2024	**2025**	2024
Net periodic cost assumptions:				
Discount rate	**5.35%**	4.70%	**5.50%**	4.80%
Expected return on plan assets	**5.65%**	5.25%	**7.10%**	6.90%
Benefit obligation assumption:				
Discount rate	**N/A**	5.35%	**5.45%**	5.50%

According to the provisions in the Postretirement Plan, benefit amounts for active participants as of December 31, 2013, have been assumed to increase based on annual health plan costs increases up to a cap of 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 for both December 31, 2025 and 2024.

The following tables set forth the amounts recognized in the statements of financial position, the change in benefit obligations, the change in plan assets, funded status, components of net periodic pension expense and other information for the Employees' Pension Plan and Postretirement Plan (dollars in thousands):

	Employees' Pension Plan		Postretirement Plan	
	2025	2024	**2025**	2024
Change in benefit obligations:				
Benefit obligation, beginning of year	**$ 18,447**	$ 19,847	**$ 16,335**	$ 16,892
Service cost	**-**	-	**251**	348
Interest cost	**757**	860	**879**	797
Actuarial (gains) losses	**1**	(841)	**143**	(1,045)
Benefits paid	**(1,312)**	(1,419)	**(697)**	(712)
Retiree contributions	**-**	-	**43**	55
Settlements	**(17,893)**	-	**-**	-
Benefit obligation, end of year	**$ -**	$ 18,447	**$ 16,954**	$ 16,335
Change in plan assets:				
Fair value of plan assets, beginning of year	**$ 17,947**	$ 19,062	**$18,788**	$18,268
Employer contributions	**(99)**	500	**-**	-
Retiree contributions	**-**	-	**43**	55
Actual investment income (loss) on plan assets	**1,357**	(196)	**2,908**	1,177
Benefits paid	**(1,312)**	(1,419)	**(697)**	(712)
Settlements	**(17,893)**	-	**-**	-
Fair value of plan assets, end of year	**-**	17,947	**21,042**	18,788
Funded status at end of year	**$ -**	$ (500)	**$ 4,088**	$ 2,453
Amounts recognized in financial statements:				
Current liabilities	**$ -**	$ (500)	**$ -**	**$ -**
Noncurrent assets	**-**	-	**4,088**	2,453
	$ -	$ (500)	**$ 4,088**	$ 2,453

Settlements include $4,641,000 in lump sum payments and $13,252,000 for the annuity purchase with the insurance company paid in 2025.

	Employees' Pension Plan		Postretirement Plan	
	2025	2024	**2025**	2024
Amounts not yet recognized as components of net periodic benefit costs:				
Net actuarial losses (gains)	**$ -**	$ 7,115	**$ (2,815)**	$ (1,540)
	$ -	$ 7,115	**$ (2,815)**	$ (1,540)
Components of net periodic benefit cost:				
Operating:				
Service cost	**$ -**	$ -	**$ 251**	$ 348
Nonoperating:				
Interest cost	**757**	860	**879**	797
Expected return on plan assets	**(776)**	(928)	**(1,309)**	(1,241)
Amortization of prior period actuarial (gains) losses	**506**	535	**(181)**	(72)
Settlement loss	**6,029**	-	**-**	-
Amortization of prior service credits	**-**	-	**-**	(34)
Nonoperating periodic benefit cost	**6,516**	467	**(611)**	(550)
Net periodic benefit cost	**$ 6,516**	$ 467	**$ (360)**	$ (202)
Amounts recognized in nonoperating activities:				
Nonoperating periodic benefit cost	**$ 6,516**	$ 467	**$ (611)**	$ (550)
Net actuarial losses (gains)	**(580)**	283	**(1,456)**	(981)
Amortization of net actuarial gain (losses)	**(506)**	(535)	**181**	72
Amortization of net prior service costs	**-**	-	**-**	34
Settlement loss	**(6,029)**	-	**-**	-
Total other amounts recognized in nonoperating activities	**$ (599)**	$ 215	**$ (1,886)**	$ (1,425)
Amounts expected to be recognized during the years ended December 31, 2026 and 2025:				
Amortization of net actuarial (gains) losses	**$ -**	$ 607	**$ (348)**	$ (182)
	$ -	$ 607	**$ (348)**	$ (182)

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 that maintains discretion over investment decisions, within asset allocation ranges recommended by the Committee.

The Employees' Pension Plan has no remaining plan assets as of December 31, 2025.

The asset allocation policy for the Postretirement Plan reflects the target allocation of approximately 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 Postretirement Plan were invested in mutual funds at December 31, 2025 and 2024, the majority of which were indexed. The plan assets of the Employees' Pension Plan were invested in mutual funds at December 31, 2024, 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	**2025**	2024	**2025**	2024
Mutual funds (all Level 1):				
U.S. equity funds (a)	**$ -**	$ -	**$ 5,448**	$ 4,651
International equity index fund (b)	**-**	-	**5,515**	4,687
Fixed income funds (c)	**-**	17,771	**10,079**	9,450
Cash held by investment manager	**-**	176	**-**	-
Total	**$ -**	$ 17,947	**$ 21,042**	$ 18,788

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.

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

Year Ended December 31	
2026	$ 708
2027	807
2028	881
2029	939
2030	985
2031–2035	5,618

The FAF does not expect to contribute to the Postretirement Plan during 2026.

7. Furniture, Equipment, Software and Leasehold Improvements

(Dollars in thousands)

Years Ended December 31	**2025**	2024
Furniture, equipment, and software	**$ 30,330**	$ 28,422
Leasehold improvements	**22,243**	22,223
	52,573	50,645
Accumulated depreciation and amortization	**(29,502)**	(22,090)
	$ 23,071	$ 28,555

8. Leases

The FAF entered into a lease contract for office space in Norwalk commencing in March 2022 and ending in July 2038. The FAF also entered into a lease contract for office space in Washington, D.C. commencing in July 2024 and ending March 2032. Both contracts are operating leases and require both fixed and variable payments and include lease incentives. Variable payments are based on expenses incurred by the landlord associated with operating the office space and premises on which that space is located. The FAF has options to extend the leases (two five-year terms for the Norwalk lease and one three-year renewal term for the DC lease) and concluded that it is not reasonably certain at this time either of these options will be exercised. The leases have remaining lease terms of 12.5 to 6.25 years.

Total fixed operating lease expense was $1,472,000 and $1,425,000 in 2025 and 2024, respectively. Total variable lease expense was $1,007,000 and $657,000 in 2025 and 2024, respectively. Cash paid for amounts included in the measurement of operating lease liabilities amounted to $1,691,000 and $1,282,000 in 2025 and 2024, respectively. Cash received from landlords representing lease incentives amounted to $99,000 in 2024.

The weighted average remaining lease term is 12.25 years and 13.25 years in 2025 and 2024, respectively, and the weighted-average discount rate 2.1 percent in both 2025 and 2024.

Lease maturities (dollars in thousands):

Year Ended December 31	
2026	$ 2,050
2027	2,136
2028	2,255
2029	2,259
2030	2,263
Thereafter	17,820
Total lease payments	28,783
Present value discount	(3,437)
Total lease liability	$25,346