

FINANCIAL ACCOUNTING STANDARDS BOARD

Financial Statements for the Years Ended

December 31, 2020 and 2019

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Financial Statements

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Statements of Activities for the Years Ended December 31, 2020 and 2019

(Dollars in thousands)	<u>2020</u>	<u>2019</u>
Operating:		
Revenue:		
Accounting support fees (Note 2)	\$ 31,332	\$ 29,294
Total revenue	<u>31,332</u>	<u>29,294</u>
Program expenses:		
Salaries and wages	20,572	19,347
Employee benefits (Note 4)	4,902	4,882
Occupancy and equipment expenses (Note 5)	1,108	1,085
Depreciation and amortization (Note 5)	426	421
Information technology fees	1,222	956
Professional fees	1,010	1,246
Other operating expenses	692	1,241
Total program expenses	<u>29,932</u>	<u>29,178</u>
Support expenses:		
Salaries and wages	3,761	3,860
Employee benefits (Note 4)	1,150	1,103
Occupancy and equipment expenses (Note 5)	627	597
Depreciation and amortization (Note 5)	174	169
Information technology fees	357	248
Professional fees	1,185	1,534
Other operating expenses	926	1,087
Total support expenses	<u>8,180</u>	<u>8,598</u>
Total program and support expenses	<u>38,112</u>	<u>37,776</u>
Operating revenue less than operating expenses	<u>(6,780)</u>	<u>(8,482)</u>
Nonoperating:		
Net periodic benefit costs other than service costs (Note 4)	(47)	(251)
Net investment income (Note 3)	50	106
Decrease in net assets before allocation	<u>(6,777)</u>	<u>(8,627)</u>
Change in net assets allocated by FAF	<u>7,169</u>	<u>9,183</u>
Change in net assets without donor restrictions	<u>392</u>	<u>556</u>
Net assets at beginning of year	<u>6,308</u>	<u>5,752</u>
Net assets at end of year	<u>\$ 6,700</u>	<u>\$ 6,308</u>

See accompanying notes to these financial statements.

Statements of Financial Position as of December 31, 2020 and 2019

(Dollars in thousands)

	<u>2020</u>	<u>2019</u>
Current Assets:		
Cash and cash equivalents	\$ 2,231	\$ 1,623
Short-term investments (Note 3)	6,355	6,341
Accounting support fees and other receivables (net of allowance for doubtful accounts of \$90 and \$49)	119	68
Prepaid expenses and other current assets	<u>79</u>	<u>97</u>
Total current assets	8,784	8,129
Noncurrent Assets:		
Furniture and equipment, at cost	2,772	2,769
Leasehold improvements, at cost	550	550
Less: Accumulated depreciation and amortization (Note 5)	<u>(3,202)</u>	<u>(3,148)</u>
Total noncurrent assets	120	171
Total assets	\$ 8,904	\$ 8,300
Current Liabilities:		
Accounts payable and accrued expenses	\$ 1,149	\$ 1,153
Accrued payroll and related benefits	<u>1,055</u>	<u>839</u>
Total current liabilities	2,204	1,992
Net Assets—without donor restrictions		
Net assets allocated by FAF	122,952	115,783
Accumulated excess of allocable expenses over accounting support fees	<u>(116,252)</u>	<u>(109,475)</u>
Total net assets without donor restrictions	6,700	6,308
Total liabilities and net assets	\$ 8,904	\$ 8,300

See accompanying notes to these financial statements.

Statements of Cash Flows for the Years Ended December 31, 2020 and 2019

(Dollars in thousands)	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from accounting support fees	\$ 31,281	\$ 29,327
Cash received from interest and dividends on investments	50	106
Cash paid to vendors and employees	<u>(37,875)</u>	<u>(38,136)</u>
Net cash used in operating activities	<u>(6,544)</u>	<u>(8,703)</u>
Cash flows from financing activities:		
Change in net assets allocated by FAF	<u>7,169</u>	<u>9,183</u>
Net cash provided by financing activities	<u>7,169</u>	<u>9,183</u>
Cash flows from investing activities:		
Proceeds from sales of short-term investments	6,000	6,000
Purchases of short-term investments	(6,014)	(6,087)
Purchases of furniture, equipment, and leasehold improvements	<u>(3)</u>	<u>(3)</u>
Net cash used in investing activities	<u>(17)</u>	<u>(90)</u>
Net increase in cash and equivalents	608	390
Cash and equivalents at beginning of year	<u>1,623</u>	<u>1,233</u>
Cash and equivalents at end of year	<u>\$ 2,231</u>	<u>\$ 1,623</u>

See accompanying notes to these financial statements.

Notes to Financial Statements December 31, 2020 and 2019

1. Nature of Activities and Summary of Significant Accounting Policies

Activities

The Financial Accounting Standards Board (FASB), organized in 1973, is an independent standard-setting body created by the Financial Accounting Foundation (FAF). The FASB is the designated body in the private sector responsible for establishing standards of financial accounting and reporting in the United States for nongovernmental entities. Those standards govern the preparation of financial reports and are provided for the guidance and education of the public, including issuers, auditors, and users of financial information.

The FAF is an independent, private-sector, non-stock corporation which operates exclusively for charitable, educational, scientific and literary purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code (the Code), as amended. The FAF is responsible for the oversight, administration, finances, and appointment of the FASB and the Financial Accounting Standards Advisory Council (FASAC), a group comprising stakeholders that works closely with the FASB in an advisory role, in addition to the Governmental Accounting Standards Board (GASB), the body which establishes standards of financial accounting and reporting for state and local governmental entities, and the Governmental Accounting Standards Advisory Council.

The FAF presently obtains funding for the FASB from accounting support fees provided under Section 109 of the Sarbanes-Oxley Act of 2002 (the Act).

Summary of Significant Accounting Policies

Purpose of Financial Statements

The accompanying financial statements are furnished to comply with Section 108 of the Act, requiring reporting of financial results of the FASB's standard-setting activities, and have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). For purposes of these financial statements only, the FAF has presented certain revenues, expenses, assets, and liabilities that are directly attributable to the FASB, which represent allocations from the FAF. As such, certain assets, liabilities, and activities of the FAF that are not solely related to the standard-setting activities of the FASB are excluded from these financial statements. The 2020 FAF audited financial statements, available at the FAF's website at accountingfoundation.org, provides comprehensive information related to the assets, liabilities, and activities of the FAF, including those of the FASB.

Basis of Presentation

All of the net assets attributable to the FASB are classified as without donor restrictions. The net assets without donor restrictions attributable to the FASB are delineated as follows:

- *Net assets allocated by FAF*—Represents the amount of net assets the FAF has allocated to the FASB to fund its accumulated *excess of allocable expenses over accounting support fees* in addition to the net effect of other transactions and allocated assets and liabilities from the FAF to the FASB since the date separate FASB financial statements have been prepared to comply with the Act.

- *Accumulated excess of allocable expenses over accounting support fees*—Represents the cumulative amount of allocable expenses in excess of accounting support fees that have been incurred carrying out the activities of the FASB since financial statements have been prepared to comply with the Act.

The Act provides funding for the expenses and other cash requirements of the FASB's standard-setting activities that are included in the FAF's operating and capital budget for each year (the recoverable expenses). Funding for the recoverable expenses is provided through fees assessed against and collected from certain issuers of securities (accounting support fees) pursuant to the Act. 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 as prescribed under the Act. See Note 2 for further information on accounting support fees and recoverable expenses.

Program expenses include salaries, benefits, and other operating expenses for the members and staff of the FASB and FASAC, as well as costs for the ongoing development of the U.S. GAAP Financial Reporting Taxonomy. Program expenses also include costs for external relations and communications activities and for the information and technology services related to the standard-setting activities of the FASB. FAF services are provided for the common benefit of the FASB and the GASB. The FASB's allocable share of FAF 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. FAF expenses are allocated between the FASB and the GASB pursuant to an allocation method, which examines common FAF administrative expenses by activity using several different measurement criteria.

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 such statements and revenue 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.

Accounting Support Fees

FASB accounting support fees are recognized as revenue in the year for which those accounting support fees have been assessed to issuers as prescribed by the Act. See Note 2 for further information regarding accounting support fees.

Contributions

Many individuals contribute significant amounts of time to the activities of the FASB without compensation. Those activities include participating as members of FASAC; the Private Company Council; the FASB's Emerging Issues Task Force; and various other FASB councils, committees, task forces, and working groups on technical projects. Many others participate by sending comment letters, appearing at roundtable meetings, and taking part in field visits. These services do not meet the criteria to be recognized as contributed services.

Publishing Revenue

Publishing revenue for FASB content has been retained by the FAF through its ownership of the copyrights of those materials. Accordingly, such net revenue is not reflected in the accompanying statements of activities. Additional information about FAF publishing revenue and expenses can be found in the FAF's 2020 audited financial statements.

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 investment and the maturity period.

Investments

Investments are recorded at fair value and are measured using Level 1 inputs, which are defined as quoted market prices in active markets for identical investments.

Concentration of Credit Risk

Financial instruments that potentially are subject to concentrations of credit risk consist principally of cash and cash equivalents and short-term investments. The short-term investments are held in a money market fund 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.

Furniture, Equipment, and Leasehold Improvements

The FAF holds the title to all furniture, equipment, and leasehold improvements used in the FASB's operations. As such, these assets are not included in the accompanying statements of financial position, with the exception of assets purchased since 2004 known to be used exclusively for the benefit of the FASB's operations. Such FASB capital assets have been reported at cost, with depreciation and amortization computed using the straight-line method. Furniture and equipment are depreciated over their estimated useful lives, ranging from 3 to 10 years. Leasehold improvements are amortized over periods not extending beyond the September 30, 2022 termination date of the FAF's current office lease.

Subsequent Events

The FAF has evaluated subsequent events through March 5, 2021, the date through which the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment or disclosure in the financial statements.

2. Accounting Support Fees

The Act provides for funding of FASB's recoverable expenses through accounting support fees assessed against issuers of securities, as defined in the Act. The accounting support fees provide funding for recoverable expenses associated with FASB's standard-setting activities as identified in the FAF's operating and capital budget for each calendar year and reflect adjustments for noncash expenses and certain cash requirements not reflected in the statements of activities.

Any differences between the FASB's program and support expenses (adjusted for noncash expenses and certain cash requirements) and the amount of accounting support fees recognized as revenue for an applicable calendar year (to the extent that the differences are not financed from excess FAF Reserve Funds) would be incorporated into the calculation of accounting support fees in subsequent years. The FAF's budgeted recoverable expenses for the FASB 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. The accounting support fees are also subject to review by the U.S. Securities and Exchange Commission each year.

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 2020 sequestration, began on October 1, 2019 and ended on September 30, 2020. During 2020, the FAF sequestered \$1,850,000 with respect to the FASB accounting support fees. The OMB notified the FAF that the 2020 sequestered funds were available for spending for the 2020 federal fiscal year, which began October 1, 2020, and as a result no restrictions existed at December 31, 2020. The FAF understands that the FASB accounting support fees for federal fiscal year 2020 will be subject to sequestration in a similar manner.

During 2020 and 2019, \$31,281,000 and \$29,327,000, respectively, of accounting support fees were collected and approximately \$205,000 and \$87,000 of fees remained in receivables at December 31, 2020 and 2019, respectively. In 2020 and 2019, the FAF paid a fee of approximately \$209,000 to the Public Company Accounting Oversight Board for services as the FAF's agent under an agreement to invoice and collect the accounting support fees.

3. Short-Term Investments and Net Investment Income

Short-term investments, consisting of Level 1 money market mutual funds, which are measured at fair value, amounted to \$6,355,000 and \$6,341,000 as of December 31, 2020 and 2019, respectively. Net investment income consists entirely of interest and dividends.

4. Employee Benefits

Employee benefits expense consists principally of employer payroll taxes, health care benefits for active and retired employees, and pension costs. FASB members and staff are participants in the pension and other postretirement benefit plans applicable to all FAF employees. The 2020 FAF audited financial statements include further information about these FAF-sponsored benefit plans and about the following aspects of related employee benefit matters:

- The Financial Accounting Foundation Employees' Tax Sheltered Annuity Plan, a defined contribution plan.
- The Financial Accounting Foundation Employees' Pension Plan (the Employees' Pension Plan), a defined benefit pension plan, and a postretirement health coverage plan, including eligibility requirements and vesting provisions applicable to those plans. 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.
- The postretirement health coverage plan was amended effective January 1, 2014, to limit the level of benefits that will be paid to current employees and new hires and was amended effective January 1, 2020, to close the plan to new hires.
- The principal actuarial assumptions used to determine costs and benefit obligations for the plans.
- The components of net periodic benefit expense under the Employees' Pension Plan and the postretirement health coverage plan.
- The changes in plan assets and benefit obligations, funded status, and applicable reconciliations to amounts recognized in the FAF's financial statements for the Employees' Pension Plan and the postretirement health coverage plan.

- The accumulated and projected benefit obligations for the FAF's Employees' Pension Plan and the accumulated postretirement benefit obligation for its postretirement health coverage plan.

The accompanying statements of activities include defined benefit pension expense and postretirement health coverage expense of approximately \$264,900 and \$287,000, respectively, for 2020 and \$330,000 and \$240,000, respectively, for 2019. The components of net periodic benefit cost other than the service costs component are reflected separately in the statements of activities.

5. Facilities

The FASB conducts substantially all of its business in offices for which the FAF is the lessee pursuant to an operating lease. The FASB is allocated a share of the total rental expense for that office space and certain equipment based upon several allocation factors, including office square footage utilization. Occupancy and equipment expenses presented in the accompanying statements of activities consist principally of rental expense for office space, including related operating expenses, and equipment attributable to the FASB of approximately \$1,734,600 and \$1,681,900 for the years ended December 31, 2020 and 2019, respectively. Depreciation and amortization expense presented in the accompanying statements of activities includes costs for assets purchased exclusively for the benefit of the FASB's operations of approximately \$54,500 and \$60,500 for the years ended December 31, 2020 and 2019, respectively. The balance of depreciation and amortization expense in each period consists of an allocation of costs for assets purchased for the FAF's operations.

6. Liquidity and Availability of Financial Assets

The primary source of funding of general expenditures of the FASB is derived from the assessment and collection of accounting support fees. Accounting support fees for the FASB are billed on an annual basis in April of each year. FASB recoverable expenses not funded through FASB accounting support fees are subsidized by the FAF's excess Reserve Funds. The following table reflects the financial assets available to meet the general expenditures for one year as of December 31, 2020 and 2019 (dollars in thousands):

At December 31	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,231	\$ 1,623
Investments (short-term and Reserve Fund)	6,355	6,341
Accounting support fees and other receivables	119	68
Financial assets available	<u>\$ 8,706</u>	<u>\$ 8,032</u>

To the extent that expenses are not funded through accounting support fees, they are subsidized by the FAF's excess Reserve Funds and reflected as part of net assets allocated by FAF.

Independent Auditor's Report

RSM US LLP

Board of Trustees
Financial Accounting Standards Board

Report on the Financial Statements

We have audited the accompanying financial statements of the Financial Accounting Standards Board (FASB), an independent standard setting body of the Financial Accounting Foundation, which comprise the statements of financial position as of December 31, 2020 and 2019, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the FASB as of December 31, 2020 and 2019, and the changes 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.

Emphasis of Matter

As explained in Note 1 to the financial statements, the financial statements have been prepared pursuant to Section 108 of the Sarbanes-Oxley Act of 2002 and present certain revenues, expenses, assets and liabilities of the Financial Accounting Foundation that are directly attributable to the standard-setting activities of the FASB of the Financial Accounting Foundation, and do not include all of the assets, liabilities, net assets, activities or cash flows of the Financial Accounting Foundation. Our opinion is not modified with respect to this matter.

RSM US LLP

New Haven, Connecticut
March 5, 2021