

Board of Governors of the Federal Reserve System

Federal Financial Institutions Examination Council Financial Statements as of and for the Years Ended December 31, 2021 and 2020, and Independent Auditors' Reports



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



Office of Inspector General

Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection

February 24, 2022

Federal Financial Institutions Examination Council
3501 Fairfax Drive, B-7081a
Arlington, VA 22226-3550

Dear Members of the Federal Financial Institutions Examination Council:

This letter transmits the *Independent Auditors' Report on the Financial Statements and Report on Internal Control Over Financial Reporting and on Compliance and Other Matters* (Independent Auditors' Reports) prepared by KPMG LLP on the Federal Financial Institutions Examination Council's (FFIEC) financial statements. We contracted with KPMG to audit the financial statements of the FFIEC as of and for the years ended December 31, 2021 and 2020.

The contract requires the audit to be performed in accordance with the auditing standards generally accepted in the United States of America and in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the comptroller general of the United States. We reviewed and monitored the work of KPMG to ensure compliance with the contract. KPMG is responsible for the accompanying Independent Auditors' Reports, dated February 24, 2022.

We do not express an opinion on the FFIEC's financial statements. In addition, we do not draw conclusions on the Independent Auditors' Reports.

Sincerely,

A handwritten signature in black ink that reads 'Mark Bialek'.

Mark Bialek
Inspector General

cc: Judith Dupre, Executive Secretary, FFIEC
Frank Kressman, Chair, FFIEC Legal Advisory Group, and General Counsel, National Credit Union Administration
Ricardo A. Aguilera, Chief Financial Officer, Board of Governors of the Federal Reserve System

Federal Financial Institutions Examination Council

Financial Statements as of and for the Years
Ended December 31, 2021 and 2020, and
Independent Auditors' Reports

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

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

Independent Auditors' Report

The Federal Financial Institutions Examination Council:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Federal Financial Institutions Examination Council (the Council), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, 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 Council as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Council 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.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Council has changed its method of accounting for leases as of January 1, 2020 due to the adoption of Accounting Standards Codification Topic 842, *Leases*, and the related amendments. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, 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 Council's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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 Council'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 Council'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.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2021, we considered the Council's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements as of and for the year ended December 31, 2021 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The



results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of the Other Reporting Required by *Government Auditing Standards*

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Council's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, District of Columbia
February 24, 2022

Federal Financial Institutions Examination Council Balance Sheets

	As of December 31,	
	2021	2020
Assets		
Current assets:		
Cash	\$ 1,770,777	\$ 2,288,820
Accounts receivable from member agencies	707,617	534,455
Accounts receivable from non-member agencies – net	3,375	-
Total current assets	<u>2,481,769</u>	<u>2,823,275</u>
Non-current assets:		
Operating lease real estate right-of-use asset	1,347,388	1,681,240
Operating lease equipment right-of-use assets	122,975	188,492
Total non-current assets	<u>1,470,363</u>	<u>1,869,732</u>
Total assets	<u>\$ 3,952,132</u>	<u>\$ 4,693,007</u>
Liabilities and cumulative results of operations		
Current liabilities:		
Accounts payable and accrued liabilities payable to member agencies	\$ 517,419	\$ 1,072,474
Accounts payable and accrued liabilities payable to non-member agencies	304,998	301,552
Accrued annual leave	145,876	123,621
Operating lease payable	399,499	379,890
Total current liabilities	<u>1,367,792</u>	<u>1,877,537</u>
Long-term liabilities:		
Operating lease payable	1,090,343	1,489,842
Total long-term liabilities	<u>1,090,343</u>	<u>1,489,842</u>
Total liabilities	<u>2,458,135</u>	<u>3,367,379</u>
Cumulative results of operations	<u>1,493,997</u>	<u>1,325,628</u>
Total liabilities and cumulative results of operations	<u>\$ 3,952,132</u>	<u>\$ 4,693,007</u>

See [notes to financial statements](#).

Federal Financial Institutions Examination Council Statements of Operations

	For the years ended December 31,	
	2021	2020
Revenues:		
Central Data Repository	\$ 3,520,624	\$ 3,461,665
Tuition	3,977,213	3,281,809
Assessments on member agencies	1,598,914	1,529,203
Community Reinvestment Act	492,023	693,261
Uniform Bank Performance Report	639,145	614,292
Other Revenues	570,270	594,707
Total revenues	10,798,189	10,174,937
Expenses:		
Professional fees	4,812,039	4,067,152
Salaries and related benefits	3,329,813	3,252,052
Data processing	1,062,293	1,287,968
Administration fees	967,506	914,573
Rental of office space	339,386	367,926
Travel	20	28,580
Rental and maintenance of office equipment	82,027	73,574
Other seminar expenses	9	13,117
Office and other supplies	23,617	6,728
Printing	4,182	209
Miscellaneous	8,928	1,082
Total expenses	<u>10,629,820</u>	<u>10,012,961</u>
Results of operations	168,369	161,976
Cumulative results of operations – beginning of year	1,325,628	1,163,652
Cumulative results of operations – end of year	<u>\$ 1,493,997</u>	<u>\$ 1,325,628</u>

See [notes to financial statements](#).

**Federal Financial Institutions Examination Council
Statements of Cash Flows**

	For the years ended December 31,	
	2021	2020
Cash flows from (used in) operating activities:		
Results of operations	\$ 168,369	\$ 161,976
Adjustments to reconcile results of operations to net cash from operating activities:		
Net operating lease assets and payables (current and non-current)	19,479	(8,416)
(Increase) decrease in assets:		
Accounts receivable from member agencies	(173,162)	591,271
Accounts receivable from non-member agencies	(3,375)	14,525
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities payable to member agencies	(555,055)	(479,546)
Other accounts payable and accrued liabilities payable to non-member agencies	3,446	(204,842)
Accrued annual leave	22,255	42,325
Net cash from (used in) operating activities	(518,043)	117,293
Net increase (decrease) in cash	(518,043)	117,293
Cash balance – beginning of year	2,288,820	2,171,527
Cash balance – end of year	<u>\$ 1,770,777</u>	<u>\$ 2,288,820</u>

See notes to financial statements.

Federal Financial Institutions Examination Council Notes to Financial Statements as of and for the Years Ended December 31, 2021 and 2020

(1) Organization and Purpose

The Federal Financial Institutions Examination Council (the Council) was established under title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978. The purpose of the Council is to prescribe uniform principles and standards for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of these financial institutions. The Council has six voting members. The five federal agencies represented on the Council during 2021, referred to collectively as member agencies, are as follows:

- Board of Governors of the Federal Reserve System (FRB)
- Consumer Financial Protection Bureau (CFPB)
- Federal Deposit Insurance Corporation (FDIC)
- National Credit Union Administration (NCUA)
- Office of the Comptroller of the Currency (OCC)

In accordance with the Financial Services Regulatory Relief Act of 2006, a rotating representative state regulator was added as a full voting member of the Council in October 2006.

The Council was given additional statutory responsibilities by section 340 of the Housing and Community Development Act of 1980, Public Law 96-399. Among these responsibilities is the implementation of a system, in consultation with the Secretary of the Department of Housing and Urban Development (HUD), to facilitate public access to data that depository institutions must disclose under the Home Mortgage Disclosure Act of 1975 (HMDA) and the aggregation of annual HMDA data, by census tract, for each metropolitan statistical area.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law. This legislation gave the CFPB general rule-writing responsibility for federal consumer financial laws and the HMDA supervisory and enforcement authority. The CFPB, as part of these responsibilities, developed a new HMDA processing system that replaced the HMDA processing system maintained by the FRB. The Council is performing the collection and billing activity for the new HMDA processing system developed by the CFPB. The activity includes the member agencies and HUD. As a collecting entity, the Council does not recognize the transfers from member agencies as revenue nor does the Council use the collections to fund Council expenses; the funds are transferred to the CFPB.

The Council is performing the collection and billing activity for the Computational Tools product services developed by the FRB. The activity includes the member agencies. Similar to the collection activity for the CFPB, the Council does not recognize the transfers from member agencies as revenue nor does the Council use the collections to fund Council expenses; the funds are transferred to the FRB.

The Council's financial statements do not include financial data for the Council's Appraisal Subcommittee (the Subcommittee). The Subcommittee was created pursuant to Public Law 101-73, title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. Although it is a subcommittee of the Council, the Appraisal Subcommittee maintains separate financial records and administrative processes. The Council is not responsible for any debts incurred by the Appraisal Subcommittee, nor are Appraisal Subcommittee funds available for use by the Council.

(2) Significant Accounting Policies

Basis of Accounting — The Council prepares its financial statements in accordance with accounting principles generally accepted in the United States (GAAP).

Revenues — Assessments are made on member organizations to fund the Council's operations based on expected cash needs and are recognized as revenue in the period in which they are assessed. Amounts over- or under-assessed due to differences between assessments and actual expenses are presented in the Council's Statements of Operations in the "Cumulative results of operations" line item during the year and then may be used to offset or increase the next year's assessment. Deficits in "Cumulative results of operations" can be recouped in the following year's assessments.

The Council provides training seminars, in the Washington, D.C. area and at locations throughout the country for member organizations, other federal agencies, and state organizations. Due to COVID-19 pandemic, the Council did not conduct any in-person training in 2021. All Council training was delivered virtually in 2021. The Council recognizes revenue from member agencies for the production and distribution of the Uniform Bank Performance Reports (UBPR) through the FDIC. Tuition and UBPR revenue are adjusted at year-end to match expenses incurred as a result of providing education classes and UBPR services. For differences between revenues and expenses, member agencies are assessed an additional amount or credited a refund based on each member's proportional cost for the examiner education and UBPR budget. The Council recognizes revenue from member agencies for expenses incurred related to the Central Data Repository (CDR) processing system, the Community Reinvestment Act (CRA) processing system, and the Geocoder and Census Product Services (Other Revenues).

Equipment and Software — Equipment is recorded at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from three to five years. Upon the sale or other disposition of a depreciable asset, the cost and related accumulated depreciation are removed and any gain or loss is recognized. Costs incurred to acquire software are capitalized based on the purchase price. Costs incurred during the application development stage to develop internal-use software are capitalized based on the cost of direct services and materials associated with designing, coding, installing, and testing the software. Capitalized software costs are amortized on a straight-line basis over the estimated useful lives of the software applications, which generally range from two to five years. Maintenance costs and minor replacements related to software are charged to operating expense in the year incurred. The CDR system, which consists of internally developed software projects, are recorded at cost less accumulated depreciation; unique useful lives are applied to these assets as appropriate.

Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and

liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates include useful lives of the CDR and the HMDA processing systems previously maintained by the FRB.

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

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

Tax Exempt Status — The Council is not subject to state or local income taxes, and federal law does not impose taxes on the Council's income.

Recently Issued Accounting Standards — In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842), which supersedes the existing guidance for lease accounting, *Leases* (Topic 840). ASU 2016-02 requires lessees to recognize leases on their balance sheets (through right-of-use (ROU) assets and lease liabilities), and leaves lessor accounting largely unchanged. The Council adopted the provisions of Topic 842 for the year ending on December 31, 2020, using the modified retrospective approach and the option presented under ASU 2018-11 to transition only active leases as of the December 31, 2020, adoption date, with a cumulative effect adjustment recorded as of that date.

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

(3) Selected Transactions with Member Agencies

	2021	2020
Accounts receivable:		
Board of Governors of the Federal Reserve System	\$ 162,295	\$ 135,030
Consumer Financial Protection Bureau	42,433	19,626
Federal Deposit Insurance Corporation	289,469	210,345
National Credit Union Administration	42,433	19,626
Office of the Comptroller of the Currency	170,987	149,828
	<u>\$ 707,617</u>	<u>\$ 534,455</u>
Accounts payable and accrued liabilities:		
Board of Governors of the Federal Reserve System	\$ 416,108	\$ 538,629
Consumer Financial Protection Bureau	148	10,349
Federal Deposit Insurance Corporation	57,896	263,775
National Credit Union Administration	500	39,218
Office of the Comptroller of the Currency	<u>42,767</u>	<u>220,503</u>
	<u>\$ 517,419</u>	<u>\$ 1,072,474</u>
Operations:		
Council operating expenses reimbursed by members	\$ 1,598,914	\$ 1,529,203
FRB-provided administrative support	\$ 967,506	\$ 914,573
FRB-provided data processing	\$ 1,062,293	\$ 1,287,968
Tuition revenue:		
Member tuition	\$ 3,852,563	\$ 3,212,652

Member agencies of the Council detail personnel to support Council operations. The salaries and related costs presented on the Statement of Operations represent the amounts which the Council has reimbursed member agencies. These detailed personnel are paid through the payroll systems of their respective member agency. The Council does not have any post-retirement or post-employment benefit liabilities since Council personnel are included in the plans of the member agencies.

Member agencies are not reimbursed for the costs of personnel who serve as Council members and on the various task forces and committees of the Council. The value of these contributed services is not included in the accompanying financial statements.

(4) Central Data Repository

In 2003, the Council entered into an agreement with Unisys to enhance the methods and systems used to collect, validate, process, and distribute Call Report information used by member organizations, and to store this information in the CDR. The CDR was placed into service in October 2005. At that time, the Council began depreciating the CDR on a straight-line basis over its estimated useful life of 63 months. In 2009, the Council reevaluated the useful life of the CDR and decided to extend its estimated useful life by an additional 36 months based on enhanced

functionality of the software. In 2013, the Council again reevaluated the useful life of the CDR and decided to extend its estimated useful life by an additional 12 months to December 31, 2014. In 2014, the Council added additional enhancements of \$688,281 and extended the useful life of the asset, including the enhancements, for an additional 56 months. The Council similarly extended the period of the associated deferred revenue. The CDR asset value is \$21,839,856 and is fully depreciated. The Council also pays for hosting and maintenance expenses for the CDR and recognizes the associated revenue from members.

CDR Financial Activity — The Council is funding the project by billing the three participating Council member agencies (FRB, FDIC, and OCC). The accounts payable and accrued liabilities related to the CDR is \$281,000 and \$270,000 as of December 31, 2021 and 2020, respectively.

(5) Leases

In 2020, the Council agreed to the option to extend for another five years an operating lease with the FDIC to secure office and classroom space and in February 2021 the agreement was officially executed. In 2018, the Council entered into operating leases for copier equipment. These leases have remaining terms of 2 to 4 years. Adoption of Topic 842 resulted in the recording of ROU assets and corresponding lease liabilities of \$1,470,363 and \$1,489,842, respectively as of December 31, 2021. The adoption of Topic 842 did not materially impact the Council’s net earnings and had no impact on its cash flows. The Council's current lease arrangements expire through 2025.

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

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

Lease cost. The Council’s lease cost was comprised of the following components for the years ended December 31, 2021 and 2020:

	2021	2020
Operating lease cost	\$ 407,535	\$ 388,076
Variable lease cost	13,878	53,424
Total lease cost	<u>\$ 421,413</u>	<u>\$ 441,500</u>

Lease commitments. The Council’s future minimum lease payments required under operating leases as of December 31, 2021 were as follows:

	<u>Operating Leases</u>
2022	\$ 405,407
2023	398,650
2024	346,556
2025	351,349
Total lease payments	1,501,962
Less imputed interest	12,120
Present value of lease payments	<u>1,489,842</u>
Less current maturities of lease obligations	399,499
Long-term lease obligations	<u><u>\$ 1,090,343</u></u>

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

Additional lease information. Additional information related to the Council’s leases as of December 31, 2021 and 2020 was as follows:

	2021	2020
Weighted Average Remaining Lease Term		
Operating leases	3.82 years	4.78 years
Weighted Average Discount Rate		
Operating leases	0.46%	0.49%

Supplemental cash flow information. Supplemental cash flow information related to the Council’s leases during the years ended December 31, 2021 and 2020 was as follows:

	2021	2020
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 405,172	\$ 398,678

(6) Subsequent Events

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2021. Subsequent events were evaluated through February 24, 2022, which is the date the financial statements were available to be issued.

* * * * *