Management's Discussion and Analysis

2018 Summary

The mission of the Financial Accounting Foundation (FAF) and its standard-setting Boards, the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB), is to establish and improve standards of financial accounting and reporting for public and private companies, not-for-profit organizations, and state and local governments. Collectively, these standards are known as Generally Accepted Accounting Principles (GAAP). Financial accounting and reporting standards help foster and protect investor confidence, facilitate the efficient operation of capital markets, and enable citizens to assess the stewardship of public resources by their state and local governments. The FAF, the FASB, and the GASB are committed to the development of high-quality financial accounting and reporting standards through an independent and open process that results in useful financial information, considers all stakeholder views, and ensures public accountability. The FAF is responsible for the oversight, administration, financing, and appointment of the FASB and the GASB, and their respective advisory councils, the Financial Accounting Standards Advisory Council (FASAC), and the Governmental Accounting Standards Advisory Council (GASAC). The FAF obtains its funding from three sources:

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

The FAF's net assets increased by $4.3 million in 2018. Revenues exceeded total program and support expenses by $3.2 million. Program and support expenses are funded by accounting support fees and by voluntary Reserve Fund contributions, which are determined during our annual budgeting process as described more fully in the Statements of Financial Position Reserve Fund Investments section below. In 2018, the FAF's actual expenses were favorable compared to the 2018 budget, resulting in the excess of revenues over expenses.

Contents

The FAF's expenses include program expenses, which are those directly related to the activities of standard setting and publishing, and support expenses, which are those related to the general administration and operation of program activities.

Standard-setting activities in 2018 related to the FASB's and the GASB's primary mission of improving financial accounting and reporting standards. These efforts included fostering improvement and increased comparability of international accounting standards, working with the Private Company Council (PCC) to improve the standard-setting process for private companies, and continuing the development of the GAAP Financial Reporting Taxonomy (Taxonomy) for eXtensible Business Reporting Language (XBRL) in the private sector. Program expenses also include publishing and delivering FASB and GASB standard-setting content.

Total program and support expenses decreased $3.0 million, or 5%, from 2017 to 2018 due to decreases in salary and benefits (primarily FASB) and Information Technology (IT) initiatives. Spending for IT initiatives decreased from $2.2 million in 2017 to $558,000 in 2018. In 2017, these initiatives included a long-term IT Transformation project to update our technology and development of new processes and systems to support the standard-setting process including the implementation of a stakeholder relationship management system and other infrastructure enhancements, including in the area of cyber security. It also included an independent current-state assessment of FAF publishing technology and processes. As a result of this assessment, the FAF commenced a multi-year "Content Vision & Enablement" (CV&E) initiative in late 2018. The CV&E initiative has three components: finalizing the organization's content strategy, designing and installing a new multichannel publishing platform, and updating the technology and business processes behind our content authoring, production, and distribution.

Financial Results

The FAF's financial statements are presented in accordance with GAAP and reflect the specific reporting requirements of not-for-profit organizations. These financial statements also reflect the adoption of several FASB accounting pronouncements including those affecting the not-for-profit financial reporting model, leases, revenue from contracts with customers, and benefit costs.

Significant changes included:

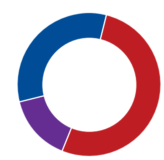
1. Expanding the functional categories from one (standard setting) to two (standard setting and publishing) on the Statements of Activities;
2. Reflecting only the service cost portion of net periodic benefit costs in employee benefit costs and reporting the other components separately as other changes in net assets;
3. Recognizing operating lease right-of-use (ROU) assets and operating lease liabilities on the Statements of Financial Position; and
4. Expanding and revising disclosures on functional expenses, revenue recognition, liquidity and availability of financial assets, and leases.

Statements of Activities

The following charts display the sources of revenues and the program and support expenses for 2018 and 2017:

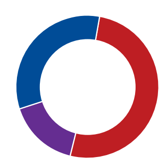
2018 Sources of Revenues

- FASB Accounting Support Fees 52%
- GASB Accounting Support Fees 15%
- Publishing 33%



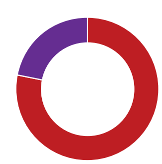
2017 Sources of Revenues

- FASB Accounting Support Fees 51%
- GASB Accounting Support Fees 16%
- Publishing 33%



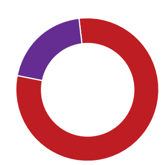
2018 Expenses

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



2017 Expenses

- Program—Standard Setting and Publishing 80%
- Support 20%



Management's Discussion and Analysis

FASB Accounting Support Fees

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

Equity issuers and investment company issuers are assessed a share of the accounting support fees based upon their relative average monthly market capitalization, subject to minimum capitalization thresholds. The FAF has retained the Public Company Accounting Oversight Board (PCAOB) as its agent for invoicing and collecting FASB accounting support fees, which were $29.1 million in 2018 and $27.8 million in 2017. As described more fully in the Statements of Financial Position Reserve Fund Investments section below, this variance is primarily related to a decrease in the formula-based amount that FAF voluntarily contributes from the Reserve Fund to offset FASB recoverable expenses that would otherwise be funded by accounting support fees. The FAF paid the PCAOB approximately $209,000 per year for collection services, which is included as part of operating support expenses, in 2018 and 2017.

The Office of Management and Budget (OMB) has determined that the FASB accounting support fee is subject to sequestration pursuant to the Budget Control Act of 2011 (BCA). Sequestration amounts are based on the federal government's fiscal year, which, for the 2018 sequestration, began on October 1, 2017, and ended on September 30, 2018. During 2018, approximately $1.92 million was sequestered with respect to the FASB accounting support fee. The OMB notified the FAF that the 2018 sequestered funds were available for spending for the 2019 federal fiscal year, which began October 1, 2018. The FAF understands that the FASB accounting support fee for federal fiscal year 2019 will be subject to sequestration in a similar manner.

GASB Accounting Support Fees

Pursuant to the Dodd-Frank Act, in 2012, the SEC issued an order approving a proposed rule change to the by-laws of the Financial Industry Regulatory Authority (FINRA) to establish an accounting support fee to fund the annual budget of the GASB, including rules and procedures to provide for the equitable allocation, assessment, and collection of the GASB accounting support fee from FINRA members. FINRA collects the GASB accounting support fee quarterly from member firms that report trades to the Municipal Securities Rulemaking Board (MSRB). Each member firm's assessment is based on the member firm's portion of the total par value of municipal securities transactions reported by FINRA member firms to the MSRB during the previous quarter. GASB accounting support fees were $8.3 million in both 2018 and 2017. The FAF paid FINRA $30,000 per year for collection services, which is included as part of operating support expenses, in 2018 and 2017.

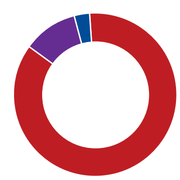
Publishing

Publishing revenue for FASB and GASB product offerings is presented in the Statements of Activities on a combined basis. As noted below, gross revenues year to year have been positively impacted by price increases for FASB and GASB products but offset somewhat by a decreasing number of commercial sublicensees and direct subscribers to online and print subscriptions. Gross revenues for FASB and GASB product offerings are separately displayed in the charts below for 2018 and 2017.

FASB Publishing (dollars in thousands)

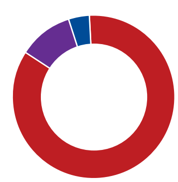
2018

License Fees	86%	$14,184
Codification Online Subscriptions	11%	$1,730
Print subscriptions, hard copy and other	3%	$488
Total	**100%**	**$16,402**



2017

License Fees	85%	$13,586
Codification Online Subscriptions	11%	$1,750
Print subscriptions, hard copy and other	4%	$611
Total	**100%**	**$15,947**



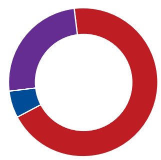
The FAF licenses the content of the *FASB Accounting Standards Codification*® (FASB Codification) to commercial publishers and others for specific uses. The FASB Codification also is directly accessible through an online platform and can be viewed either through a free Basic View or as an annual paid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

FASB publishing revenues totaled $16.4 million in 2018, up 3% from 2017.

GASB Publishing (dollars in thousands)

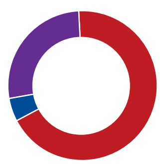
2018

License Fees	69%	$1,193
GARS Online Subscriptions	6%	$97
Print subscriptions, hard copy and other	25%	$428
Total	**100%**	**$1,718**



2017

License Fees	68%	$1,159
GARS Online Subscriptions	5%	$93
Print subscriptions, hard copy and other	27%	$454
Total	**100%**	**$1,706**



The FAF licenses GASB materials to commercial publishers and others for specific uses. GASB materials are also directly accessible online through the *Governmental Accounting Research System* (GARS). GARS Online can be viewed either through a free Basic View or as an annual paid subscription to the Professional View that provides advanced functionality and navigation. GASB materials also are available through various subscription plans sold directly by the FAF, including The GASB Subscription (consisting of final documents as issued) and the GASB Board Packages. In addition, the FAF sells bound editions of the GASB Codification, GASB Original Pronouncements, and the GASB Comprehensive Implementation Guide, as well as hard copies of individual pronouncements, User Guides, Research Reports, and other documents.

GASB publishing revenues totaled $1.7 million in 2018, consistent with 2017.

Program and Support Expenses

The FAF's operating program expenses, which comprise the standard-setting activities of the FASB and the GASB and FAF publishing activities totaled $41.1 million in 2018, a 7% decrease, compared to $44.1 million in 2017. Program salaries and benefits, which comprise approximately 79% of the FAF's program expenses in 2018, decreased $1.9 million primarily related to FASB technical staff decreases and a FASB member vacancy. In addition, IT initiatives decreased by $1.6 million due to the completion in 2017 of several initiatives related to FAF's long-term IT Enhancement project. Following an assessment of the publishing technology and business processes, the CV&E project was not initiated until late 2018.

Other standard-setting program expenses include domestic and international travel for the FASB and the GASB members and staff, costs for holding advisory group and other meetings, library subscriptions and other reference materials, and other miscellaneous expenses. Other publishing program expenses include printing and shipping costs and information technology fees and services.

The FAF's operating support expenses totaled $11.5 million in 2018, an increase of 1% from 2017.

Pension-Related Changes Not Reflected in Operating Expenses

Pension-related changes are nonoperating adjustments to record the change in the funded status of the Employees' Pension Plan and the Postretirement Plan. Pension-related changes are determined by comparing the fair value of plan assets against the actuarially determined amount of benefit obligations. The FAF recorded a nonoperating increase in net assets of $909,000 for 2018 and a nonoperating increase in net assets of $2.5 million for 2017. Factors impacting the amount of pension-related changes include actuarial gains or losses resulting from actual investment return compared to actuarially expected return, changes in discount rate, and in 2017, the updating of several actuarial assumptions based on recent demographic trends, offset by the impact of the decrease in the discount rate in 2018.

Statements of Financial Position

Reserve Fund Investments

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

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

Accounting support fee assessments in 2018 and 2017 were offset by voluntary Reserve Fund contributions of $11.1 million and $15.4 million, respectively. These amounts are primarily derived from net publishing revenues but also benefited from favorable variances in revenues and expenses between budget and actual that carry over from the prior year and other items that affect the balance of the Reserve Fund.

Reserve Fund investments totaled $61.1 million and $57.4 million as of December 31, 2018 and 2017, respectively. The Reserve Fund's assets were invested in approximately equal proportions in a money market mutual fund and a short-term, high-credit quality, fixed income mutual fund. An amount equal to the Reserve Fund balance is reflected as a separate Board designated component of net assets without donor restrictions.

Accounting Support Fees, Publishing, and Other Receivables

Receivables as of December 31, 2018 and 2017 primarily included $2.4 million of GASB accounting support fees in each year and $3.3 million and $2.7 million of license fees, respectively. The remaining balance is primarily related to publishing revenues.

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

Operating lease ROU assets and liabilities include the recognition of operating leases for office space in Norwalk (main office) and Washington, D.C. and for equipment. FAF adopted the leases standard in 2018 and recognized ROU assets and operating lease liabilities as of December 31, 2018 and 2017, as detailed in Note 8 to the financial statements.

Accrued Postretirement Health Care Costs

The funded status of the Postretirement Plan amounted to a $758,000 net liability in 2018, compared to a net liability of $752,000 in 2017. This reflects a decrease in plan assets primarily due to investment losses, offset by a benefit obligation decrease primarily resulting from the impact of an increase in the discount rate.

Accrued Pension Costs

The funded status of the Employees' Pension Plan amounted to a $652,000 net liability in 2018, compared to a net liability of $1.1 million in 2017. The decrease in the net liability of the Employees' Pension Plan was primarily due to $800,000 in employer contributions and the offsetting impact of investment losses that decreased plan assets and the increase in the discount rate that decreased the benefit obligation. In addition, there were $1.8 million of lump sum settlements, which reduced both the plan assets and the benefit obligation.

Outlook for 2019

The FAF will continue to manage resources prudently, while appropriately investing in technology and other initiatives in fulfilling the important mission of the FASB and the GASB. In late 2018, as previously noted, FAF began a comprehensive multi-year "Content Vision & Enablement" (CV&E) initiative following an independent current-state assessment of FAF publishing technology and business processes. The CV&E initiative has three components: finalizing the organization's content strategy, designing and installing a new multichannel publishing platform, and updating the technology and business processes behind our content authoring, production, and distribution. The new publishing and distribution systems will replace ten-year-old technology that is increasingly obsolete and expensive to maintain and allow the organization to continue to fulfill its standard-setting mission.

Statements of Activities

For the years ended December 31 (dollars in thousands)	2018	2017
Operating:		
Revenues:		
Accounting support fees:		
FASB	$29,081	$27,763
GASB	8,346	8,309
Total accounting support fees	37,427	36,072
Publishing (Note 2)	18,120	17,653
Contributions—FAF contributed services	184	204
Total revenues	55,731	53,929
Program expenses (Note 4):		
Standard setting:		
FASB	28,600	31,634
GASB	7,912	8,468
Total standard setting	36,512	40,102
Publishing	4,592	4,039
Total program expenses	41,104	44,141
Support expenses (Note 4)	11,455	11,370
Total program and support expenses	52,559	55,511
Operating revenues greater (less) than operating expenses	3,172	(1,582)
Nonoperating:		
Short-term investment income (Note 5)	150	78
Reserve Fund investment income (Note 5)	777	835
Other components of net periodic pension cost (Note 6)	(756)	(471)
Pension-related changes not reflected in operating expenses (Note 6)	909	2,509
Change in net assets without donor restrictions	4,252	1,369
Net assets at beginning of year	65,877	64,508
Net assets at end of year	$70,129	$65,877

See accompanying notes to these financial statements.

Statements of Financial Position

For the years ended December 31 (dollars in thousands)	2018	2017
Current assets:		
Cash and cash equivalents	$ 4,107	$ 4,764
Short-term investments (Note 5)	9,114	9,261
Accounting support fee, publishing, and other receivables (net of allowance for doubtful accounts of $72 and $80)	5,806	5,176
Prepaid expenses and all other current assets	958	445
Total current assets	19,985	19,646
Noncurrent assets:		
Reserve Fund investments (Note 5)	61,082	57,435
Assets held in trust (Note 6)	1,896	1,702
Operating lease right-of-use assets (Note 8)	4,060	5,546
Furniture, equipment, and leasehold improvements, net (Note 7)	2,032	2,118
Total noncurrent assets	69,070	66,801
Total assets	$ 89,055	$ 86,447
Current liabilities:		
Accounts payable and accrued expenses	$ 1,491	$ 1,884
Accrued payroll and related benefits	1,461	1,317
Operating lease liability—current (Note 8)	1,700	1,345
Unearned publication and other deferred revenues	6,630	6,407
Total current liabilities	11,282	10,953
Noncurrent liabilities:		
Accrued pension costs (Note 6)	652	1,123
Accrued postretirement health care costs (Note 6)	758	752
Operating lease liability—long term (Note 8)	4,338	6,040
Other liabilities (Note 6)	1,896	1,702
Total noncurrent liabilities	7,644	9,617
Total liabilities	18,926	20,570
Net assets—without donor restrictions		
Designated by the Board for Reserve (Notes 3 and 5)	61,082	57,435
Undesignated	9,047	8,442
Total net assets without donor restrictions	70,129	65,877
Total liabilities and net assets	$ 89,055	$ 86,447

See accompanying notes to these financial statements.

Statements of Cash Flows

For the years ended December 31 (dollars in thousands)	2018	2017
Cash flows from operating activities:		
Cash received from accounting support fees	$37,369	$36,523
Cash received from publishing sales	17,772	17,944
Interest and dividend income received	1,436	900
Cash paid to vendors, employees, and benefit plans	(52,422)	(54,726)
Net cash provided by operating activities	4,155	641
Cash flows from investing activities:		
Proceeds from sales of Reserve Fund investments	3,000	8,000
Purchases of Reserve Fund investments	(7,156)	(6,528)
Proceeds from sales of short-term investments	9,000	8,000
Purchases of short-term investments	(8,853)	(8,158)
Purchases of assets held in trust	(194)	(298)
Purchases of furniture, equipment, and leasehold improvements, net	(609)	(942)
Net cash (used in) provided by investing activities	(4,812)	74
Net (decrease) increase in cash and equivalents	(657)	715
Cash and equivalents at beginning of period	4,764	4,049
Cash and equivalents at end of period	$ 4,107	$ 4,764
Supplemental information		
Noncash items included in the Statement of Activities:		
Pension-related changes not reflected in operating expenses	$ 909	$ 2,509
Component of net periodic pension costs not reflected in operating expenses	$ (756)	$ (471)

See accompanying notes to these financial statements.

Notes to the Financial Statements

1 Nature of Activities and Summary of Significant Accounting Policies

Activities

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

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

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

Summary of Significant Accounting Policies

Adoption of Accounting Standards

Not-for-Profit Financial Statements

In August 2016, the FASB issued new authoritative guidance related to the not-for-profit financial reporting model. The standard changes the existing classes of net assets, improves the transparency and utility of liquidity information, changes the required presentation of cash flow information, and requires the presentation of expenses by both function and natural classification. The FAF adopted the standard in 2018 and applied the changes retrospectively. The adoption did not result in any reclasses in net asset classification, however, net assets without donor restrictions are segregated into FAF Board of Trustee (FAF Board) designated and undesignated categories. The FAF changed the presentation of the Statements of Activities to expand the functional categories from one (standard setting) to two categories (standard setting and publishing). Publishing expenses were previously netted against publishing revenues. Functional expenses by natural classification are presented in Note 4. As a result of the change in functional categories and expense allocations, certain 2017 expense allocations were reclassified to reflect the current presentation.

Leases

In February 2016, the FASB issued new authoritative guidance on leasing transactions. Most prominent among the changes in the standard is the recognition of right-of-use (ROU) assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The FAF elected to early adopt the standard in 2018 using a modified retrospective approach with the available practical expedients. The most significant impact was the recognition of ROU assets and lease liabilities in the statement of financial position for operating leases.

Revenue from Contracts with Customers

In May 2014, the FASB issued new authoritative guidance on revenue recognition. The FAF elected to early adopt the standard on January 1, 2018, including all updates made to the standard since original issuance, using the modified retrospective method. The guidance includes a five-step framework to determine the timing and amount of revenue to recognize related to contracts with customers. Additionally, the guidance requires new and expanded disclosures related to the amounts of revenue and judgments made when following the framework, which is included in Note 2. The FAF did not identify any differences resulting from applying the new requirements to revenue contracts, which consisted of those related to publishing; therefore, upon adoption, the FAF did not have an opening net asset adjustment. The FAF determined that revenue from accounting support fees are not in the scope of this guidance. The FAF utilized various practical expedients offered by the guidance during implementation.

Benefit Costs

In March 2017, the FASB issued new guidance related to the presentation of net benefit costs. Previously, net benefit costs were reported as a component of employee benefit costs in both program and support costs. The new guidance requires only service costs to be presented with employee benefit costs and the other components reported separately as other changes in net assets. The FAF early adopted the guidance in 2018 and the changes have been applied retrospectively in the 2017 statements of activities. As a result, $756,000 and $471,000 of net periodic pension costs other than service costs have been reclassed from operating expenses and reflected as nonoperating decreases in the statement of activities for the years ended December 31, 2018 and 2017, respectively.

Contributions Received

In June 2018, the FASB issued new guidance to clarify and improve the scope and the accounting guidance for contributions received and made, primarily by not-for-profit organizations. The FAF early adopted the guidance in 2018, which primarily relates to accounting support fees, and did not identify any differences resulting from applying the new requirements.

Presentation

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

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

All of the net assets of the FAF are classified as without donor-imposed restrictions.

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. Actual results could differ from those estimates.

Revenue Recognition

Publishing

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

The FAF assesses the obligations promised in its contracts with customers and identifies a performance obligation for each promise to transfer a good or service. 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 products 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. Shipping fees charged to customers are excluded from revenue. There are no obligations for warranties, returns, or refunds to customers.

Accounting Support Fees

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

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

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

Notes to the Financial Statements

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 2018 sequestration began on October 1, 2017, and ended on September 30, 2018. During 2018, $1,920,000 was sequestered with respect to the FASB accounting support fees. The OMB notified the FAF that the 2018 sequestered funds were available for spending for the 2019 federal fiscal year, which began October 1, 2018. The FAF understands that the FASB accounting support fees for federal fiscal year 2019 will be subject to sequestration in a similar manner.

Contributions

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

Cash and Cash Equivalents

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

Investments

The FAF's investments are recorded at fair value, all of which are measured using Level 1 inputs, which are defined as quoted market prices in active markets for identical investments. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Net appreciation or depreciation includes gains and losses on investments bought and sold as well as held during the year.

Concentration of Credit Risk

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

Accounting Support Fees, Publishing, and Other Receivables

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

Employee Benefit Plans

The FAF sponsors a postretirement health care plan and a defined benefit pension plan. Information with respect to the funded positions of each of the FAF's pension and other postretirement plans at December 31, 2018 and 2017, is set forth in Note 6.

Furniture, Equipment, and Leasehold Improvements

Furniture, equipment, 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 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 termination dates of the leases for office space.

Income Taxes

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

Leases

The FAF determines whether an arrangement is a lease at inception of a contract. Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities (current and long term) on the statements of financial position. Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term. As a practical expedient, FAF used a risk-free rate in determining the present value of future payments. Lease expense is recognized on a straight-line basis over the lease term. The lease and nonlease components in FAF's lease agreements are accounted for separately.

Subsequent Events

The FAF has evaluated subsequent events through March 15, 2019, the date through which the financial statements are available to be issued, and determined that no events subsequent to year-end have occurred that require adjustment to, or disclosure in, the financial statements.

2 Publishing

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

	2018			2017		
Years ended December 31	FASB	GASB	Total	FASB	GASB	Total
Licensing	$14,184	$1,193	$15,377	$13,586	$1,159	$14,745
Online subscriptions	1,730	97	1,827	1,750	93	1,843
Print subscriptions	256	340	596	281	357	638
Hard copy and other	232	88	320	330	97	427
Total	$16,402	$1,718	$18,120	$15,947	$1,706	$17,653

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

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

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

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

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

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

Contract liabilities (deferred revenues), as reflected in the statement of financial position, include amounts received or due in excess of revenue recognized.

Notes to the Financial Statements

3 Liquidity and Availability of Financial Assets

The primary source of funding for the FAF, FASB, and GASB general expenditures are FASB and GASB accounting support fees and publishing revenues. FASB accounting support fees are billed annually and GASB accounting support fees are billed quarterly. Together, these fees accounted for $37.4 million, or 67 percent, and $36.1 million, or 70 percent, of the funding of the organization in 2018 and 2017, respectively. The following table reflects the financial assets as of December 31, 2018 and 2017, reduced by the amounts that are not available to meet general expenditures within one year of the statement of financial position because of FAF Board designations (dollars in thousands):

At December 31	2018	2017
Cash and cash equivalents	$ 4,107	$ 4,764
Investments (short-term and Reserve Fund)	70,196	66,696
Accounting support fees, publishing, and other receivables	5,806	5,176
Financial assets available before Board designations	80,109	76,636
Less: Board designated Reserve Fund	61,082	57,435
Financial assets available to meet cash needs for general expenditures within one year	$ 19,027	$ 19,201

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

4 Program and Support Expenses

The following table presents expenses by both their nature and their functions for the years ending December 31, 2018 and 2017 (dollars in thousands):

	Program						
	Standard Setting				Total		Total
Year ended December 31, 2018	FASB	GASB	Total	Publishing	Program	Support	Expenses
Salaries and wages	$19,247	$5,367	$24,614	$1,588	$26,202	$ 4,671	$30,873
Employee benefits	4,750	1,255	6,005	439	6,444	1,513	7,957
Occupancy and equipment expenses	1,118	314	1,432	202	1,634	741	2,375
Depreciation and amortization	404	24	428	51	479	215	694
Information technology fees	801	160	961	1,881	2,842	268	3,110
Professional fees—other	922	351	1,273	1	1,274	2,479	3,753
Printing and shipping	–	–	–	315	315	–	315
Other operating expenses	1,358	441	1,799	115	1,914	1,568	3,482
Total operating program and support expenses	28,600	7,912	36,512	4,592	41,104	11,455	52,559
Net periodic benefit costs other than service cost	336	218	554	–	554	202	756
Total expenses	$28,936	$8,130	$37,066	$4,592	$41,658	$11,657	$53,315
Year ended December 31, 2017							
Salaries and wages	$21,013	$5,633	$26,646	$1,220	$27,866	$4,331	$32,197
Employee benefits	4,940	1,332	6,272	426	6,698	1,347	8,045
Occupancy and equipment expenses	1,114	313	1,427	203	1,630	687	2,317
Depreciation and amortization	350	46	396	45	441	193	634
Information technology fees	1,937	469	2,406	1,712	4,118	748	4,866
Professional fees—other	989	209	1,198	–	1,198	2,444	3,642
Printing and shipping	–	–	–	320	320	–	320
Other operating expenses	1,291	466	1,757	113	1,870	1,620	3,490
Total operating program and support expenses	31,634	8,468	40,102	4,039	44,141	11,370	55,511
Net periodic benefit costs other than service cost	222	75	297	–	297	174	471
Total expenses	$31,856	$8,543	$40,399	$4,039	$44,438	$11,544	$55,982

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

Notes to the Financial Statements

5 Investments and Investment Income and Losses

Investments

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

At December 31	2018	2017
Short-term:		
Money market mutual fund	$ 9,114	$ 9,261
Reserve Fund:		
Fixed income mutual fund	$ 30,528	$ 28,732
Money market mutual fund	30,554	28,703
	$ 61,082	$ 57,435

Investment Income and Losses (dollars in thousands):

Years ended December 31	2018	2017
Short-term:		
Interest and dividends	$ 150	$ 78
Reserve Fund:		
Interest and dividends	$ 1,286	$ 822
Net realized and unrealized (losses) gains	(509)	13
Total Reserve Fund investment income	$ 777	$ 835

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

Years ended December 31	2018	2017
Fund balance, beginning of year	$ 57,435	$ 58,894
Transfers from (to) operations, net	2,870	(2,294)
Investment income	777	835
Fund balance, end of year	$ 61,082	$ 57,435

6 Employee Benefits

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

Pension Plans

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

In 2018, the Employees' Pension Plan paid out $1,826,000 in lump sums, which triggered settlement accounting. This resulted in recognition of $646,000 of periodic benefit expense in 2018 for amounts previously deferred and recognized as pension-related changes not reflected in operating expenses.

The FAF maintains a 457(b) deferred compensation plan (457(b) Plan) to provide the ability to make tax-deferred contributions to employees whose annual base compensation exceeds the maximum compensation limit for qualified plan contributions under Code §401(a)(17). Contributions are made into a rabbi trust maintained by the FAF for each participating employee and remain assets of the FAF until distributed to the participant upon termination of their employment. The 457(b) Plan assets and related liabilities of $1,896,000 and $1,702,000 as of December 31, 2018 and 2017, respectively, are included as assets held in trust and other liabilities in the statements of financial position.

Employee benefits expense arising from the defined contribution plan was $2,791,000 and $2,952,000 for 2018 and 2017, respectively. Employer contributions to the plan are based on the employee's earnings level, with incremental increases based on the employee's age, and vest after 1.5 years of service.

Postretirement Health Coverage Plan

The FAF sponsors a postretirement health coverage plan (Postretirement Plan) for all eligible retirees of the FAF with benefits varying based on retirement age and years of service. Effective January 1, 2014, the Postretirement Plan was amended to limit the level of benefits that will be paid to current employees and new hires. Retiree benefits are limited for new hires after December 31, 2013, to the lesser of (1) the year-end 2013 calculated benefit amounts or (2) the calculated benefits offered during the year of retirement. Employees hired before January 1, 2014, are eligible for retiree benefits limited to the lesser of (1) health plan costs at 2013 calculated benefit amounts subject to a cap on potential annual increases not to exceed five percent (5%) 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. 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	
	2018	2017	2018	2017
Net periodic expense assumptions:				
Discount rate	3.40%	3.85%	3.50%	4.00%
Expected return on plan assets	4.00%	4.60%	6.20%	6.20%
Benefit obligation assumption:				
Discount rate	4.00%	3.40%	4.15%	3.50%

According to the provisions in the Postretirement Plan, benefit amounts for active participants as of December 31, 2013, have been assumed to increase 5.0% 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. At December 31, 2018 and 2017, the assumed mortality rates were updated to reflect the updated MP-2018 and MP-2017 projection scales released by the SOA.

Finally, the assumption regarding the percentage of eligible participants assumed to be married at retirement age changed from 80% to 60% from 2016 to 2017 based on recent FAF marital experience trends and relevant U.S. Census Bureau data. The change primarily impacted the Postretirement Plan obligation and was included as part of the actuarial gain for 2017.

Notes to the Financial Statements

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

	Employees' Pension Plan		Postretirement Plan	
	2018	2017	2018	2017
Change in benefit obligations:				
Benefit obligation, beginning of year	$27,301	$26,654	$17,263	$16,934
Service cost	–	–	681	638
Interest cost	894	986	596	669
Actuarial (gains) losses	(1,443)	1,189	(2,072)	(571)
Benefits paid	(1,107)	(1,528)	(577)	(506)
Settlements	(1,826)	–	–	–
Retiree contributions	–	–	114	91
Medicare Part D reimbursement	–	–	7	8
Benefit obligation, end of year	$23,819	$27,301	$16,012	$17,263
Change in plan assets:				
Fair value of plan assets, beginning of year	$26,178	$25,248	$16,511	$14,074
Employer contributions, net of Medicare Part D reimbursements of $7 and $8 in 2018 and 2017	800	250	200	750
Retiree contributions	–	–	113	91
Actual investment (loss) income on plan assets	(878)	2,208	(993)	2,102
Benefits paid	(1,107)	(1,528)	(577)	(506)
Settlements	(1,826)	–	–	–
Fair value of plan assets, end of year	23,167	26,178	15,254	16,511
Funded status at end of year	$ (652)	$ (1,123)	$ (758)	$ (752)
Amounts recognized in financial statements:				
Noncurrent liabilities	(652)	(1,123)	(758)	(752)
	$ (652)	$ (1,123)	$ (758)	$ (752)
Amounts recognized as pension-related changes not reflected as operating expenses:				
Net actuarial losses (gains)	$ 450	$ 102	$ (34)	$ (1,783)
Amortization of net actuarial losses	(1,105)	(477)	(359)	(580)
Amortization of net prior service costs	45	135	94	94
	$ (610)	$ (240)	$ (299)	$ (2,269)
Amounts not yet recognized as components of net periodic benefit costs:				
Net actuarial losses	$ 8,423	$ 9,078	$ 3,233	$ 3,626
Net prior service credits	–	(45)	(507)	(601)
	$ 8,423	$ 9,033	$ 2,726	$ 3,025
Amounts expected to be recognized during the years ended December 31, 2019 and 2018:				
Amortization of net actuarial losses	$ 493	$ 459	$ 322	$ 359
Amortization of net prior service credits	–	(45)	(95)	(95)
	$ 493	$ 414	$ 227	$ 264

Plan Assets

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

The asset allocation for the Employees' Pension Plan, which is consistent with the target allocation established by the Committee, was 100 percent in fixed income investments as of December 31, 2018, and is based upon the funded status of the plan, valuation of the liability, and the returns and risks relative to the liability. The asset allocation policy for the Postretirement Plan reflects the target allocation of 50 percent in equity investments (which includes 50 percent of the equity holdings for international stocks) and 50 percent in fixed income investments.

The plan assets of the Employees' Pension Plan and Postretirement Plan were invested in mutual funds at December 31, 2018 and 2017, 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	2018	2017	2018	2017
Mutual funds (all Level 1):				
U.S. equity funds[a]	$ –	$ –	$ 3,786	$ 4,167
International equity index fund[b]	–	–	3,563	4,254
Fixed income funds[c]	23,078	26,085	7,905	8,090
Cash held by investment manager	89	93	–	–
Total	$23,167	$26,178	$15,254	$16,511

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.

Net Periodic Benefit Expense

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

	Employees' Pension Plan		Postretirement Plan	
	2018	2017	2018	2017
Service cost	$ –	$ –	$ 681	$ 638
Interest cost	894	986	596	669
Expected return on plan assets	(1,014)	(1,121)	(1,044)	(891)
Amortization of prior period actuarial losses	459	477	359	580
Amortization of prior service credits	(45)	(135)	(94)	(94)
Net periodic benefit expense	294	207	498	902
Settlements	646	–	–	–
Benefit cost	$ 940	$ 207	$ 498	$ 902

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

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

		Postretirement Plan		
Years ended December 31	Employees' Pension Plan	Gross	Medicare Part D	Net
2019	$2,616	469	$ 5	$ 464
2020	1,830	542	7	535
2021	1,698	611	8	603
2022	1,812	678	10	668
2023	1,740	742	13	729
2024–2028	8,290	4,523	93	4,430

The FAF does not expect to contribute to the Employees' Pension Plan or Postretirement Plan during 2019.

7 Furniture, Equipment, and Leasehold Improvements

Years ended December 31 (dollars in thousands)	2018	2017
Furniture and equipment	$ 9,158	$ 8,949
Leasehold improvements	5,647	5,548
	14,805	14,497
Accumulated depreciation and amortization	(12,773)	(12,379)
	$ 2,032	$ 2,118

8 Leases

The FAF has operating leases for office space in Norwalk (main office) and Washington, D.C. and for equipment. The leases have remaining lease terms of less than one year to five years. The Norwalk office space lease includes nonlease components for operating expenses and are accounted for separately and expensed as incurred. Total rental expense for operating leases amounted to $1,447,000 and $1,431,000 in 2018 and 2017, respectively. The rent expense liability is being amortized over the remaining term of the applicable operating lease. Cash paid for amounts of operating leases included in operating cash flows amounted to $1,237,000 and $1,356,000 in 2018 and 2017, respectively. Balances related to operating leases in the statement of financial position, include the following (dollars in thousands):

At December 31	2018	2017
Operating lease right-of-use assets	$ 4,060	$ 5,546
Operating lease liabilities—current	1,700	1,345
Operating lease liabilities—long term	4,338	6,040
Total lease liabilities	$ 6,038	$ 7,385

The weighted average remaining lease term is 3.7 years and 4.7 years in 2018 and 2017, respectively, and the weighted average discount rate is 2.4% in both 2018 and 2017.

Operating lease maturities (dollars in thousands):

Years ended December 31	Undiscounted	Discounted
2019	$ 1,762	$ 1,700
2020	1,718	1,619
2021	1,706	1,569
2022	1,278	1,150
Total operating lease maturities	$ 6,464	$ 6,038

Independent Auditor's Report

To the Board of Trustees
Financial Accounting Foundation
Norwalk, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the Financial Accounting Foundation (FAF), which comprise the statements of financial position as of December 31, 2018 and 2017, 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 FAF as of December 31, 2018 and 2017, 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 discussed in Note 1 to the financial statements, in 2018, the FAF adopted new accounting guidance related to the presentation of financial statements of not-for-profit entities, revenue from contracts with customers, leases and the presentation of employee benefit plan costs. The adoption of the new guidance was retrospectively applied to 2017. Our opinion is not modified with respect to this matter.

RSM US LLP

New Haven, Connecticut
March 15, 2019