



2018 Annual Report

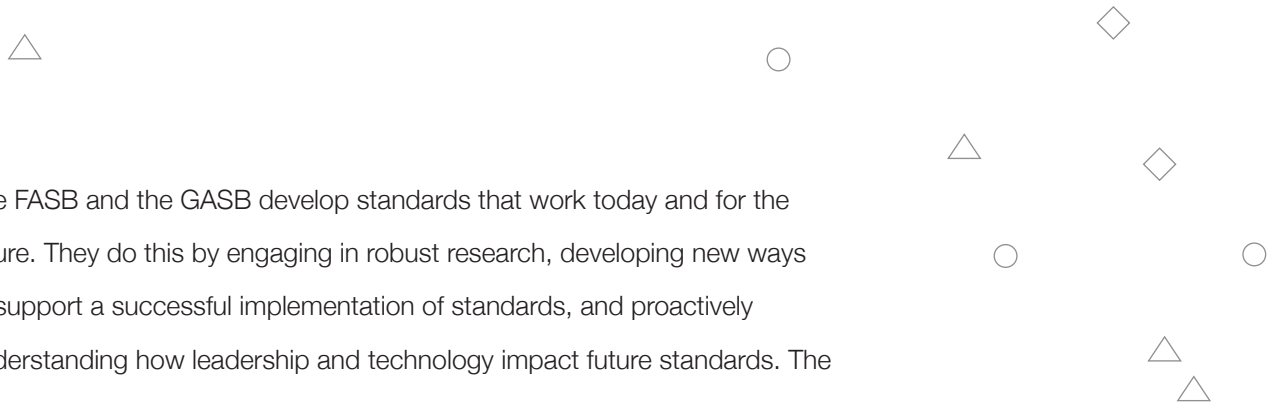
# Standards That Work

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# Rising to Meet the Future

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IBC	Welcome and Thank You



The FASB and the GASB develop standards that work today and for the future. They do this by engaging in robust research, developing new ways to support a successful implementation of standards, and proactively understanding how leadership and technology impact future standards. The FAF supports this objective by appointing the right people to the Boards and implementing the right systems to support successful standard setting.



# Standards That Work

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## Rising to Meet the Future



The background of the entire page is a light gray field filled with various white geometric shapes. These include circles of different sizes, triangles pointing in various directions, four-pointed stars, and lines. Some shapes are solid, while others are outlines. A few shapes are colored: a small red diamond, a small purple triangle, and a small blue circle. The text 'The journey to future' is written in a white, sans-serif font, positioned in the upper right quadrant of the page.

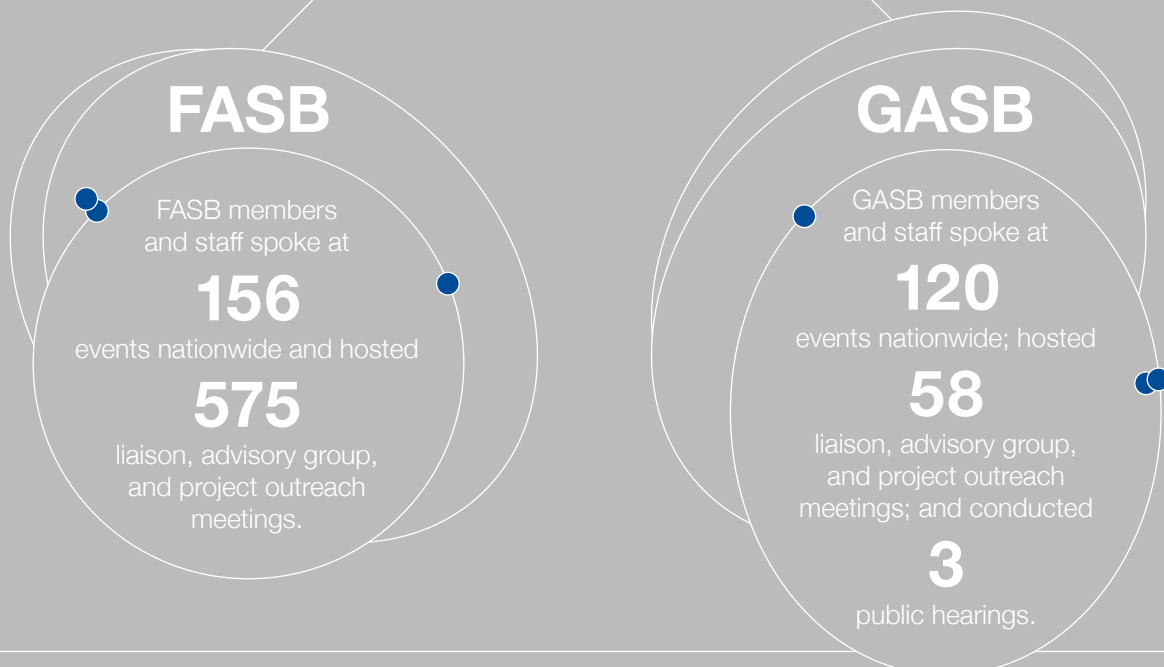
The journey to future



standards that work begins here...

# Making Standards Work: This Year and Next Year

## Stakeholder Outreach



# Process Improvements

## FAF

The FAF management team continued to enhance the stakeholder relationship management system to better support the standard-setting Boards and their constituents.

# Implementation Support

## GASB

The GASB published/exposed for public comment three implementation guides and responded to

**1,216**

technical inquiries from stakeholders.

## FASB

The FASB issued

**10**

narrow-scope improvements to ease implementation of leases, credit losses, and other standards; hosted

**14**

implementation webcasts and videos; and attracted

**22,670**

unique views to its implementation web portal.

# Spotlight on 2018

## The FASB's Long-Duration Insurance Standard

On August 15, 2018, the FASB issued a new standard that provides investors and other financial statement users with better and more timely and transparent information about long-term contracts issued by insurance companies. Project outreach included more than 150 meetings with users and more than 250 meetings with preparers, auditors, industry groups, and others.

# Making Standards Work: The Next 3 to 5 Years

## Key Agenda Projects

FASB

Distinguishing Liabilities  
from Equity (Including  
Convertible Debt)

Financial Performance  
Reporting—  
Disaggregation  
of Performance  
Information

Identifiable Intangible  
Assets and Subsequent  
Accounting for Goodwill

GASB

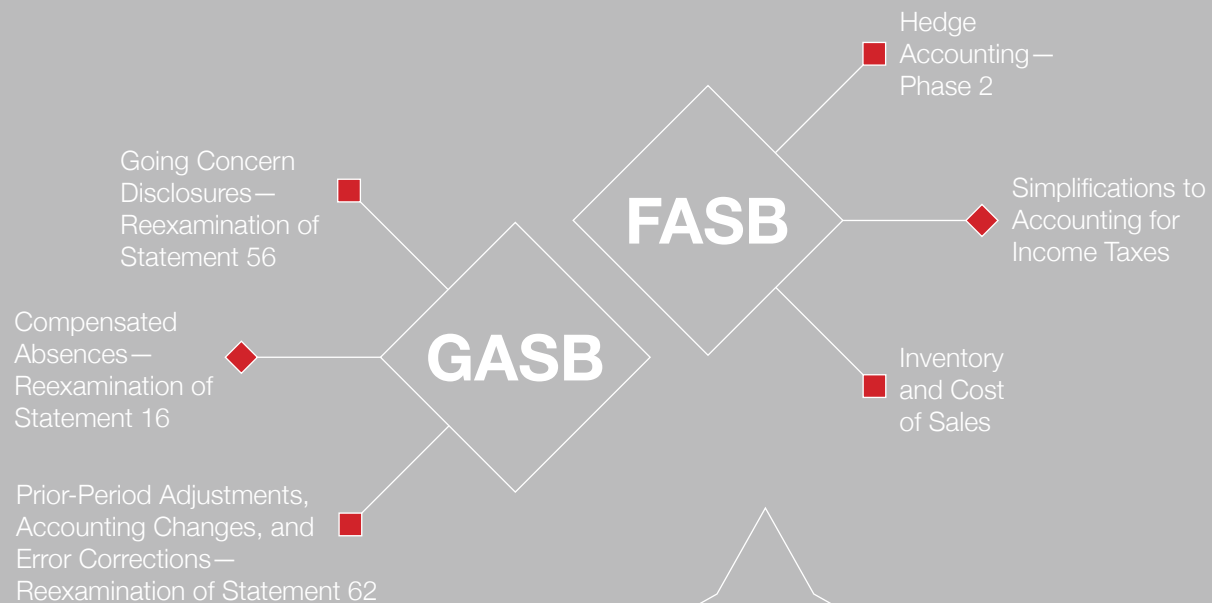
Financial Reporting  
Model

Revenue and  
Expense Recognition

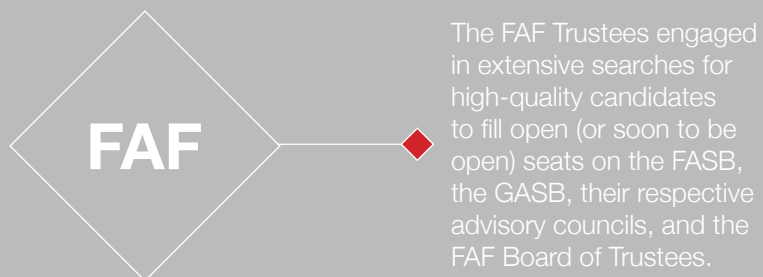
Public-Private  
Partnerships



# Key Research Projects



# Leadership Recruitment



# Spotlight on 2018

## The GASB's Gil Crain Memorial Research Grant Program

Since 1984, the GASB has awarded grants to academics and other researchers to conduct studies that would be relevant to the GASB's standard-setting activities. Such research efforts have been published in peer-reviewed journal articles, used in GASB research briefs, and occasionally featured in GASB research reports. In 2018, the GASB awarded two grants for research on capital asset reporting.

# Making Standards Work: The Future

## Developing Future Accounting Leaders

### FAF

Since 2017, the FAF has hosted more than

**500**

future accounting graduates for student visits at its facility in Norwalk, Connecticut.

### FASB & GASB

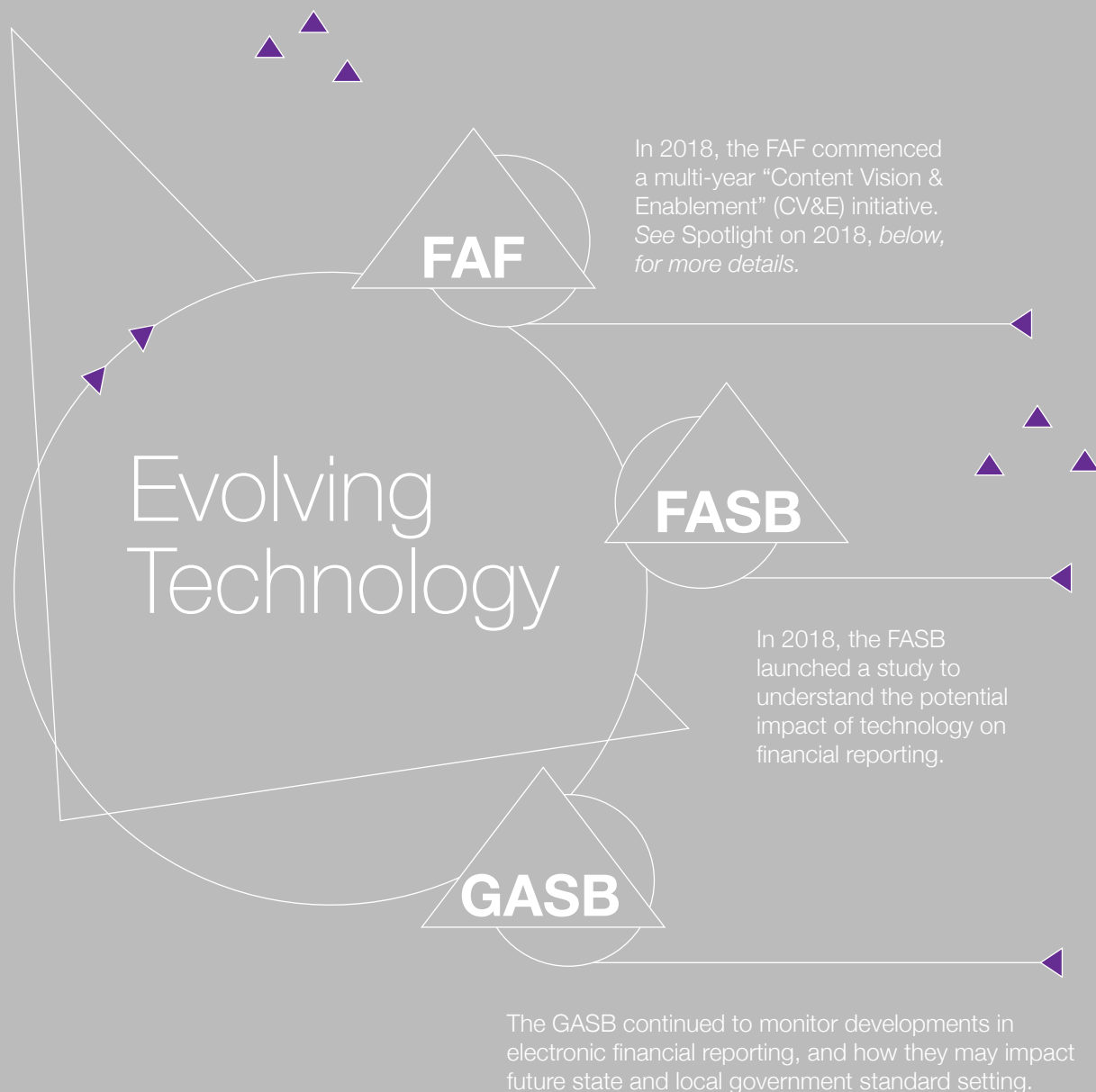
The FASB and GASB Postgraduate Technical Assistant (PTA) program gives master of accountancy/master of science in accounting graduates experience working on standard-setting projects. Since 1982, more than

**400**

accounting graduates have completed the yearlong program.

### FASB & GASB

The FASB and GASB academic web portals and outreach initiatives make it easier for professors to engage in the standard-setting process, share research, and introduce their students to careers in standard setting.



## Spotlight on 2018

### The FAF’s Content Vision & Enablement Initiative

As a result of its 2017 independent current-state assessment of FAF publishing technology and processes, 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.



Together with you, the  
FASB, GASB, and FAF...



are rising to the future  
of standards that work.

# Message from the FAF Chairman and FAF President and CEO

For standards to work now and in the future, the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB) need the right people, process, infrastructure, and support.

The Board of Trustees of the Financial Accounting Foundation (FAF) strives to ensure that the FASB and the GASB have what they need to be successful in achieving their missions.

In 2018, FAF Trustees recruited and appointed high-quality candidates to the standard-setting Boards and their advisory councils and continued to monitor the Boards' standard-setting processes and outreach to stakeholders. The FAF management team supported the Boards' work through infrastructure improvements. And both advocated for the independent standard-setting process.

One of the most important Trustee responsibilities is to recruit professionals from diverse talent pools and varied backgrounds to ensure a balance of perspectives across the Boards and their advisory groups.

The Trustees fulfilled this role in 2018 by:

- Appointing portfolio manager and research analyst Gary Buesser and (in April 2019) Technical Director Susan Cosper to the FASB
- Conducting searches that led to the appointments (in April 2019) of Mary Barth and David Lillard, Jr. to the FAF Board of Trustees
- Appointing new (and reappointing, where applicable) members to the Financial Accounting Standards Advisory Council (FASAC), the Governmental Accounting Standards Advisory Council (GASAC), and the Private Company Council (PCC), and
- Reappointing GASAC Chair Robert Scott and PCC Chair Candy Wright, who have shown great leadership of their respective advisory groups.

With FASB Chairman Russ Golden and GASB Chairman Dave Vautt completing their terms in 2020, the Trustees also began to plan the strategy for future leadership of the standard-setting Boards. In 2018, we started to think about how the

**“The FAF is committed to the success of the FASB and the GASB—for today and for the future.”**



roles might evolve. We began asking stakeholders for their thoughts on the key strategic challenges that the Boards will face and the relevant qualities, backgrounds, and experiences that the Trustees should look for in Board chair candidates.

As the Trustees continue this work in 2019, we expect further stakeholder input to inform our thoughts about the next generation of leadership.

Appointing the right people to these positions is only one part of the Trustees' role to ensure that the Boards set high-quality standards. Another part is conducting proper oversight.

In 2018, the Trustees' Standard-Setting Process Oversight Committee continued to monitor the Boards' standard-setting processes by meeting regularly with the chairs of the FASB and the GASB to discuss, among other things, progress on their agenda projects, adherence to their due process procedures, and external influences that may impact their standard-setting processes. In addition, the Oversight Committee met with the chairs of the FASAC, the GASAC, and the PCC and individual Trustees observed meetings of those groups. By holding the FASB and the GASB accountable for a transparent, comprehensive, and independent standard-setting process, the Trustees help ensure that the Boards develop high-quality financial accounting and reporting standards that best serve the needs of financial statement users.

Advocating for the FASB and the GASB's independence and the integrity of the standard-setting process is also an important Trustee responsibility. In 2018, the FASB, the GASB, and the FAF continued to collaborate to address fresh challenges to the independent standard-setting process. Our

advocacy creates space so that the Boards can conduct an independent, comprehensive, and inclusive process free from real or perceived conflicts of interest.

The right people and the right process are important to standards that work—and so is the right infrastructure. The FAF management team worked to improve that infrastructure for the benefit of the Boards, their staffs, and their stakeholders.

In 2018, we launched a project for our largest technological transformation since the FASB Codification was launched in 2009: a new and improved publishing platform.

The new publishing platform will enable the FASB and the GASB to fulfill their standard-setting mission through next generation technology systems to publish and distribute their content. In short, the platform will provide a more modern technology platform for all users. We look forward to sharing updates on this exciting initiative as we roll out the new technology to our stakeholders.

The FAF is committed to the success of the FASB and GASB—for today and for the future. On behalf of the FAF, we thank you for inspiring our work in the past and present, and for helping us rise to meet the future of financial reporting.

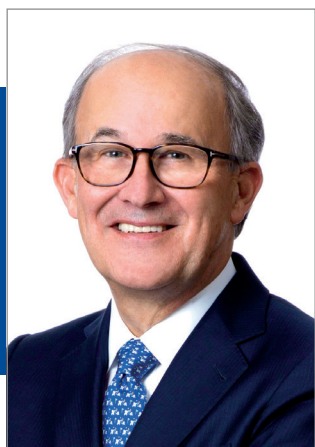
Sincerely,



Charles H. Noski  
Chairman



Teresa S. Polley  
President and CEO



**“Advocating for the FASB and the GASB’s independence and the integrity of the standard-setting process is also an important Trustee responsibility.”**

# FAF Board of Trustees



*Pictured from left to right:*

**Charles H. Noski**<sup>1</sup>  
Retired Vice Chairman  
Bank of America

**T. Eloise Foster**<sup>1,2,5</sup>  
Chair  
Maryland Supplemental  
Retirement Plans

**Diane M. Rubin**<sup>1,2,5</sup>  
Retired Audit Partner and  
Quality Control Partner  
Novogradac &  
Company LLP

**Charles M. Allen**<sup>1,2,5</sup>  
Retired Partner and Past  
Chief Executive Officer  
Crowe LLP

**Kathleen L. Casey**<sup>2,5</sup>  
Senior Advisor  
Patomak Global  
Partners LLC

**David C. Villa**<sup>3,4</sup>  
Chief Investment Officer  
State of Wisconsin  
Investment Board

**Ann M. Spruill**<sup>2,4</sup>  
Retired Partner  
GMO & Co. LLC

**John B. Veihmeyer**<sup>3,5</sup>  
Retired Chairman  
KPMG International

**Jeffrey L. Esser**<sup>3,4</sup>  
Executive Director Emeritus  
Government Finance  
Officers Association

## Officers

Chairman, Charles H. Noski  
Vice Chair, Diane M. Rubin  
Secretary and Treasurer, Christine M. Cumming  
President and Chief Executive Officer, Teresa S. Polley  
Chief Operating Officer, Mary P. Crotty  
Vice President, General Counsel and  
Assistant Secretary, John W. Auchincloss

## Trustee Committees

- <sup>1</sup> Executive Committee, Charles H. Noski, Chairman, Diane M. Rubin, Vice Chair
- <sup>2</sup> Appointments Committee, Anthony J. Dowd, Chair
- <sup>3</sup> Audit and Finance Committee, Kenneth B. Robinson, Chair
- <sup>4</sup> Compensation Committee, Myra R. Drucker, Chair
- <sup>5</sup> Standard-Setting Process Oversight Committee, Charles M. Allen, Co-Chair, T. Eloise Foster, Co-Chair





**Kenneth B. Robinson** <sup>1,2,3</sup>  
Senior Vice President,  
Internal Audit and  
Financial Controls  
Exelon Corporation

**Christine M. Cumming** <sup>2,3</sup>  
Retired First Vice President  
and Chief Operating Officer  
Federal Reserve Bank of  
New York

**Anthony J. Dowd** <sup>1,2</sup>  
President and Chief  
Executive Officer  
Fairfield-Maxwell LTD.

**Myra R. Drucker** <sup>1,2,4</sup>  
Independent Director  
Grantham, Mayo,  
Van Otterloo & Co.  
LLC

**Eugene Flood, Jr.** <sup>4,5</sup>  
Independent Director  
Janus Henderson Group

**Susan J. Carter** <sup>3,4</sup>  
Independent Director  
BlackRock Equity/Liquidity  
Mutual Fund Board,  
Pacific Pension and  
Investment Institute

**John W. Auchincloss**  
Vice President,  
General Counsel and  
Assistant Secretary  
Financial Accounting  
Foundation

**Teresa S. Polley**  
President and Chief  
Executive Officer  
Financial Accounting  
Foundation

**Mary P. Crotty**  
Chief Operating Officer  
Financial Accounting  
Foundation

*Trustees not pictured above:*

**Mary E. Barth** <sup>5</sup>  
Joan E. Horngren  
Professor of  
Accounting, Emerita  
Stanford University  
Graduate School of Business

**Gary H. Bruebaker** <sup>3,4</sup>  
Chief Investment Officer  
Washington State  
Investment Board

**David H. Lillard, Jr.** <sup>5</sup>  
Tennessee State Treasurer



# Message from the FASB Chairman

FASB stakeholders are a diverse group, so there's rarely a "one-size-fits-all" approach to serving all of them.

Financial statement users want standards that help them decide where to invest capital, or where to lend or donate money. Preparers want standards they can understand and implement at a reasonable cost. And auditors want standards that they can audit effectively.

One thing everyone agrees on, though: financial reporting is rapidly changing. And accounting standards need to keep up. In 2018, we fostered a culture dedicated to standards that work for all—including public companies, private companies, not-for-profit organizations, employee benefit plans, and their respective stakeholders.

But we also challenged ourselves to look ahead and ask how our standards should evolve to meet future needs. We discovered that what we do to make standards work today will help us make them even better tomorrow.

Take, for example, how we help preparers (and their practitioners) implement our standards. With private companies slated to adopt revenue recognition in 2019, we spent 2018 producing webinars, videos, Q and As, and even a "train the CPE trainer" program to help private companies successfully make the transition.

These resources were developed over years of trial and error with previous standards. In this case, we also drew on the experience of public companies (that implemented "rev rec" a year earlier) to fine-tune these resources and address issues private companies may not have anticipated.

We'll repeat this approach with leases, which public companies will implement in 2019. To ensure a successful and timely transition, in 2018, we clarified our leases guidance to help preparers and auditors implement the standard. And for investors, we created webinars about the changes they can expect when standards on both leases and hedging take effect.

In 2018, we also addressed questions on credit losses, leveraging the credit losses transition resource group as a forum to discuss those concerns. Based on the discussions and other input, we issued final and proposed narrow-scope adjustments to the guidance. We also improved accounting for not-for-profit grants and contracts, cloud computing arrangements, and insurance companies that issue long-duration contracts (namely, life insurance).

Experience (and plenty of research) likewise guided our work on standards to be issued in the next three to five years. Our focus is to provide investors with better information without imposing unnecessary cost and complexity on the preparer.

Through current agenda projects, we're looking at cost-effective ways to give investors more information about a company's financial performance. In 2018, the FASB staff conducted extensive outreach with preparers to help us better understand the potential costs of separating (or disaggregating) information in certain income statement line items to provide investors with greater transparency. In a related project, the staff surveyed public companies on how they use segment reporting. We're analyzing what we learned through these efforts to determine our next steps on these projects.



The Private Company Council (PCC) continued to help us improve financial reporting for all stakeholders. Based on the PCC's earlier work, we issued a proposal that would reduce the cost and complexity of accounting for goodwill and measuring certain identifiable intangible assets for not-for-profit organizations. We've also added an agenda project that would look at extending this proposal to public companies and plan to issue an Invitation to Comment on many aspects of what we need to consider in the coming months.

To better understand the direction of financial reporting worldwide, we continued to collaborate with international standard setters. Our 2018 meetings with the International Accounting Standards Board, the Accounting Standards Board of Japan, and the Accounting Standards Board of Canada, among others, allowed us to share research and potential approaches to similar standard-setting matters to benefit our respective stakeholder groups and capital markets worldwide.

Finally, to peer even further into the future, the FASB initiated a study to understand how financial reporting technology is being used by companies and investors, and how it might evolve. This information will help us develop a plan on how to develop standards that are responsive to future needs and technological changes.

It may be true, as baseball legend Yogi Berra reportedly once said, that "it's tough to make predictions, especially about the future." One prediction we can make with conviction, however, is that your input is critical to our ability to "rise" to the challenge of excellence in financial reporting. We thank you for your continued participation in our process, and for your support of standards that will work for many decades to come.

Sincerely,

Russell G. Golden, Chairman



**"We discovered that what we do to make standards work today will help us make them even better tomorrow."**

# 2018 FASB Highlights

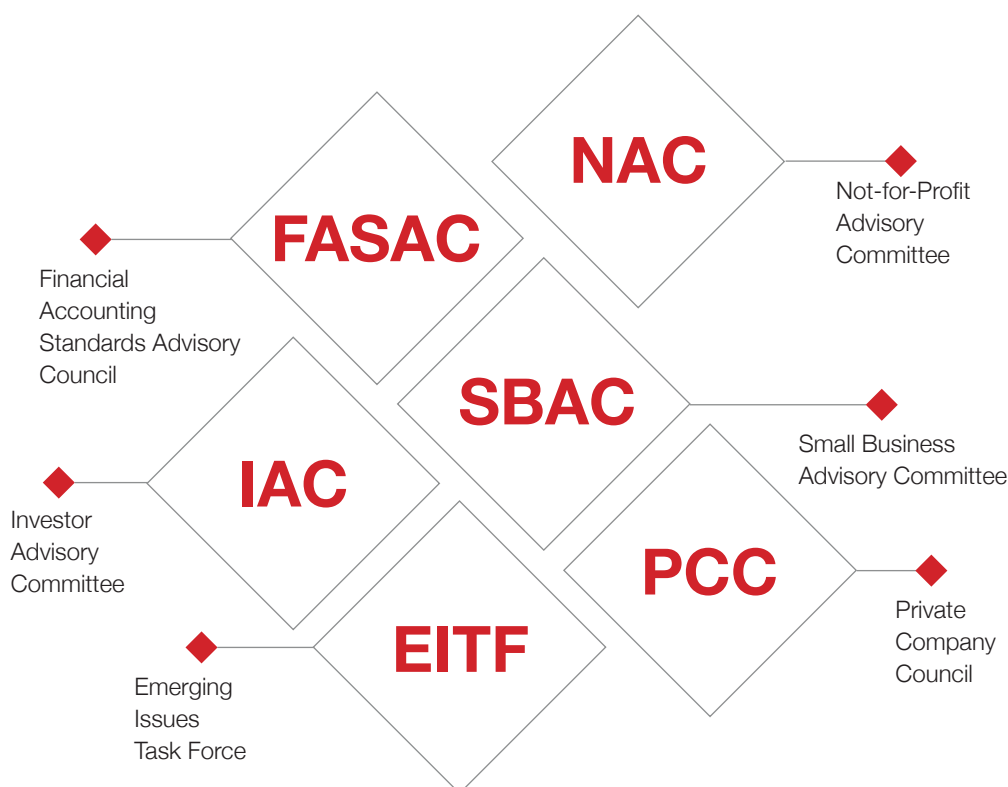


## Key Standards/Concepts Statements Issued in 2018

- Financial Services—Insurance: Targeted Improvements to the Accounting for Long-Duration Contracts
- Consolidation: Targeted Improvements to Related Party Guidance for Variable Interest Entities (Private Company Alternative)
- Derivatives and Hedging: Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes
- Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made
- Four narrow-scope improvements to the Leases standard
- Two narrow-scope improvements to Financial Instruments standards
- Four improvements to disclosures in notes to financial statements
  - New Conceptual Framework chapter on disclosures
  - Update to existing Conceptual Framework chapter on definition of *materiality*
  - New standard on Fair Value Measurement disclosure requirements
  - New standard on Defined Benefit Plans disclosure requirements
- Intangibles—Goodwill and Other—Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)
- Compensation—Stock Compensation: Improvements to Nonemployee Share-Based Payment Accounting
- Income Statement—Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income
- Collaborative Arrangements: Clarifying the Interaction between Topic 808 and Topic 606.

## Advisory Groups

Advisory and other groups provide important input to the FASB on projects, standards, and implementation efforts. More information about each group—including complete membership rosters—is available in the online version of the annual report ([www.accountingstandards.org/future](http://www.accountingstandards.org/future)) and at [www.fasb.org](http://www.fasb.org).



# Members of the FASB



*Pictured from  
left to right:*

**Marsha L. Hunt**  
Board Member

**James L. Kroeker**  
Vice Chairman

**Susan M. Cospers**  
Board Member

**Gary R. Buesser**  
Board Member

**R. Harold Schroeder**  
Board Member

**Christine Ann Botosan**  
Board Member

**Russell G. Golden**  
Chairman

# Message from the GASB Chairman

Setting accounting standards is always a juggling act. At any given time, we have to keep our eye on the immediate needs of stakeholders to implement current accounting standards, make progress on projects to improve GAAP in the next year or two, and think about longer-term changes that will shape the future of financial reporting. The Board attended to all of these challenges in 2018.

## New Educational Resources

Focusing on stakeholders' most immediate needs, we developed educational resources to assist them as they adopt new GASB standards.

Among the best tools the Board has to help governments successfully adopt new guidance are our "Q&A" guides. These guides provide authoritative answers to questions we receive at presentations across the country, through our technical inquiry system, and in other ways.

Driven by stakeholder questions in 2018, we developed draft Q&A guides for our recent standards on fiduciary activities and leases. We plan to publish final guides mid-year.

Our User Guides translate accounting standards into a plain-language form to assist investors, analysts, and others in understanding the information presented in a government's financial report. We published three new editions of the User Guide Series in 2018. The new User Guide editions address school district finances, business-type activities, and include an updated guide for financial statement analysts.

## Evolving Transactions and the Changing Landscape

The next wave of changes to financial reports addresses some of the most dynamic parts of public finance. In 2018, we focused on four specific projects of interest to stakeholders.

As public-private partnerships continue to evolve, so does our guidance for them. While current GASB standards cover many "P3s," we're revisiting how we define them, considering the effectiveness of current disclosure requirements, and taking a fresh look at recognition and measurement issues.

Our work on subscription-based information technology arrangements will provide guidance for transactions involving the digital cloud and other remote data storage networks. It's key that GASB standards keep pace with developments that underlie these increasingly prevalent transactions.

Based on current financial reporting standards, governments report conduit debt in different ways. To promote consistent application, we'll issue guidance that more clearly defines these arrangements and describes how governments would consistently report conduit debt, including any additional commitments associated with those transactions.

Finally, with the future of London Interbank Offered Rate (LIBOR)-based benchmarking instruments in flux, we're working on how the transition to other rates should be accounted for in the financial statements.



### Progress on “The Big Three”

From a long-term perspective, we’re working on the “The Big Three”—the Financial Reporting Model, Revenue and Expense Recognition, and Note Disclosures.

Looking at these related areas at the same time lets us take a big picture view of state and local government financial reporting to identify opportunities for improvement.

The Financial Reporting Model project considers what the future financial reports should ultimately present. In 2018, we issued a draft of our early thinking for stakeholder comment in the form of a Preliminary Views document. Now we’re analyzing the input we received.

At the same time, the Board is weighing when revenues and expenses should be recognized within the model. We issued a document for stakeholder comment in 2018 and continue to work on a proposal that integrates the issues that have been identified as a result of the due process feedback.

As those projects progress, the next question becomes: what disclosures would provide a more informed

understanding of the financial statements? In creating a disclosure framework, we’re examining how disclosures meet stakeholder needs—and what changes may be required.

### Thank You for Your Input!

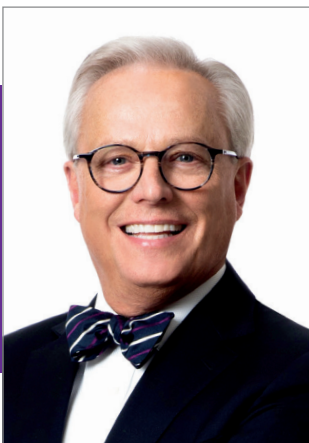
The most important element of building a solid foundation of accounting standards is listening carefully to the rich and diverse input from our broad range of stakeholders and incorporating those ideas into our work.

On behalf of all of us at the GASB, I’d like to thank everyone who shared their views with us in 2018. The input, ideas, and perspectives you offered helped inform the Board’s activities and provided insight to help us rise to meet user needs.

Sincerely,

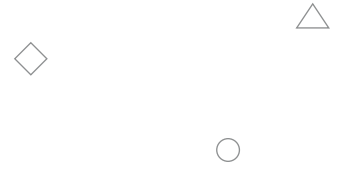


David A. Vaudt, Chairman



**“The next wave of changes to financial reports addresses some of the most dynamic parts of public finance.”**

# 2018 GASB Highlights



## Final Statements (and Implementation Guide)

- Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
- Accounting for Interest Cost Incurred before the End of a Construction Period
- Majority Equity Interests
- Implementation Guidance Update—2018

## Exposure Drafts

- Conduit Debt Obligations
- Implementation Guidance Update—2019
- Implementation Guide: Fiduciary Activities

## Invitation to Comment/ Preliminary Views Documents

- Revenue and Expense Recognition (ITC)
- Financial Reporting Model Improvements (PV)
- Recognition of Elements of Financial Statements (PV).

### The Governmental Accounting Standards Advisory Council (GASAC)

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

**GASAC**

**GASB Task Forces** are assembled for most major projects and serve as a sounding board as a project progresses.

**GASB**

**GASB**

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

More information about the GASAC, GASB consultative groups, and GASB task forces is available in the online version of the annual report ([www.accountingfoundation.org/future](http://www.accountingfoundation.org/future)) and at [www.gasb.org](http://www.gasb.org).



# Members of the GASB



*Pictured from  
left to right:*

**Jeffrey J. Previdi**  
Vice Chairman

**David A. Vaudt**  
Chairman

**Michael H. Granof**  
Board Member

**David E. Sundstrom**  
Board Member

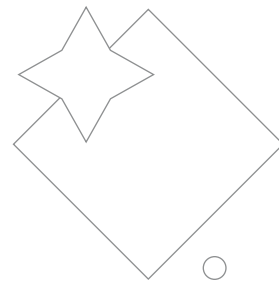
**Brian W. Caputo**  
Board Member

**James E. Brown**  
Board Member

**Kristopher E. Knight**  
Board Member

**David R. Bean**  
Director of Research and  
Technical Activities

# 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.

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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%



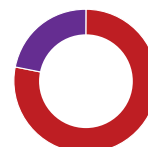
#### 2017 Sources of Revenues

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



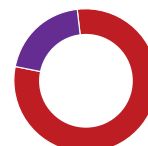
#### 2018 Expenses

● 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

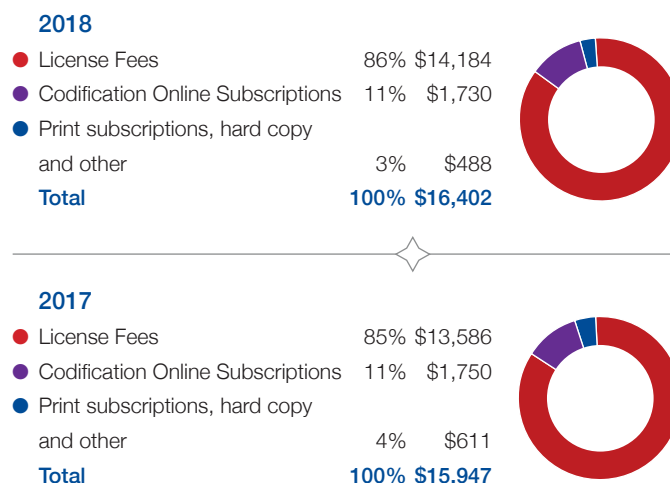
Pursuant to the Dodd-Frank Act, in 2012, the SEC issued an order approving a proposed rule change to the by-laws of the Financial Industry Regulatory Authority (FINRA) to establish an accounting support fee to fund the annual budget of the GASB, including rules and procedures to provide for the equitable 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.

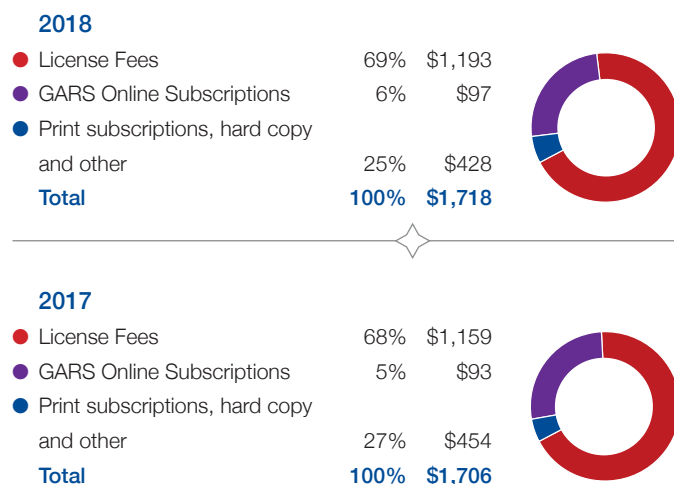
### FASB Publishing (dollars in thousands)



The FAF licenses the content of the *FASB Accounting Standards Codification*<sup>®</sup> (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)



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

# Management's Discussion and Analysis

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
<b>Total current assets</b>	<b>19,985</b>	<b>19,646</b>

## 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
<b>Total noncurrent assets</b>	<b>69,070</b>	<b>66,801</b>
<b>Total assets</b>	<b>\$ 89,055</b>	<b>\$ 86,447</b>

## 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
<b>Total current liabilities</b>	<b>11,282</b>	<b>10,953</b>

## 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
<b>Total noncurrent liabilities</b>	<b>7,644</b>	<b>9,617</b>
<b>Total liabilities</b>	<b>18,926</b>	<b>20,570</b>

## Net assets—without donor restrictions

Designated by the Board for Reserve (Notes 3 and 5)	61,082	57,435
Undesignated	9,047	8,442
<b>Total net assets without donor restrictions</b>	<b>70,129</b>	<b>65,877</b>
<b>Total liabilities and net assets</b>	<b>\$ 89,055</b>	<b>\$ 86,447</b>

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 reclassified 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):

Years ended December 31	2018			2017		
	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
<b>Total operating program and support expenses</b>	<b>28,600</b>	<b>7,912</b>	<b>36,512</b>	<b>4,592</b>	<b>41,104</b>	<b>11,455</b>	<b>52,559</b>
Net periodic benefit costs other than service cost	336	218	554	—	554	202	756
<b>Total expenses</b>	<b>\$28,936</b>	<b>\$8,130</b>	<b>\$37,066</b>	<b>\$4,592</b>	<b>\$41,658</b>	<b>\$11,657</b>	<b>\$53,315</b>
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
<b>Total operating program and support expenses</b>	<b>31,634</b>	<b>8,468</b>	<b>40,102</b>	<b>4,039</b>	<b>44,141</b>	<b>11,370</b>	<b>55,511</b>
Net periodic benefit costs other than service cost	222	75	297	—	297	174	471
<b>Total expenses</b>	<b>\$31,856</b>	<b>\$8,543</b>	<b>\$40,399</b>	<b>\$4,039</b>	<b>\$44,438</b>	<b>\$11,544</b>	<b>\$55,982</b>

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
<b>Short-term:</b>		
Money market mutual fund	\$ 9,114	\$ 9,261
<b>Reserve Fund:</b>		
Fixed income mutual fund	\$ 30,528	\$ 28,732
Money market mutual fund	30,554	28,703
	<u>\$ 61,082</u>	<u>\$ 57,435</u>

### Investment Income and Losses (dollars in thousands):

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

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	<u>\$ 61,082</u>	<u>\$ 57,435</u>







## 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
<b>Change in benefit obligations:</b>				
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
<b>Change in plan assets:</b>				
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
<b>Funded status at end of year</b>	\$ (652)	\$ (1,123)	\$ (758)	\$ (752)
<b>Amounts recognized in financial statements:</b>				
Noncurrent liabilities	(652)	(1,123)	(758)	(752)
	\$ (652)	\$ (1,123)	\$ (758)	\$ (752)
<b>Amounts recognized as pension-related changes not reflected as operating expenses:</b>				
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)
<b>Amounts not yet recognized as components of net periodic benefit costs:</b>				
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
<b>Amounts expected to be recognized during the years ended December 31, 2019 and 2018:</b>				
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):

Fair Value of Plan Assets at December 31	Employees' Pension Plan		Postretirement Plan	
	2018	2017	2018	2017
Mutual funds (all Level 1):				
U.S. equity funds <sup>(a)</sup>	\$ –	\$ –	\$ 3,786	\$ 4,167
International equity index fund <sup>(b)</sup>	–	–	3,563	4,254
Fixed income funds <sup>(c)</sup>	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.

# Notes to the Financial Statements

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

Years ended December 31	Employees' Pension Plan	Postretirement Plan		
		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



# Welcome

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



## FASB

Joined July 1, 2018

### Gary R. Buesser

Prior to joining the FASB, Mr. Buesser was a director/research analyst with Lazard Asset Management.



## FASB

Joined May 1, 2019

### Susan M. Cospers

Prior to joining the FASB, Ms. Cospers was technical director of the FASB.



## FAF

Joined April 16, 2019

### Mary E. Barth

Joan E. Horngren Professor of Accounting, Emerita Stanford University Graduate School of Business



## FAF

Joined April 16, 2019

### David H. Lillard, Jr.

Tennessee State Treasurer

# Thank You

During the past year, the following leaders concluded terms on the FASB and the FAF Board of Trustees.

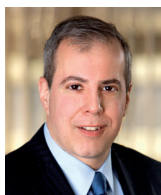
On behalf of the entire organization, we thank them for their outstanding service.



## FASB

### Harold L. Monk, Jr.

Served on the FASB from January 1, 2017 to May 31, 2018.



## FASB

### Marc A. Siegel

Served on the FASB from July 1, 2008 to June 30, 2018.



## FAF

Completed service on April 15, 2019

### Nancy K. Kopp

Maryland State Treasurer



## FAF

Completed service on April 15, 2019

### Terry D. Warfield

PwC Professor in Accounting and Richard J. Johnson Chair, Department of Accounting and Information Systems, University of Wisconsin, Madison



# Our Mission

The collective mission of the FASB, the GASB, and the FAF is to establish and improve financial accounting and reporting standards so they provide useful information to investors and other users of financial reports and to educate stakeholders on how to most effectively understand and implement those standards.

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



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

[www.accountingfoundation.org](http://www.accountingfoundation.org)  
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Norwalk, CT 06856-5116



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

[www.fasb.org](http://www.fasb.org)



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

[www.gasb.org](http://www.gasb.org)