Financial Accounting Foundation

Financial Accounting Standards Board
www.fasb.org

Governmental Accounting Standards Board
www.gasb.org

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FAF

2000 Annual Report
Financial Accounting Foundation

Financial Accounting Standards Board

Governmental Accounting Standards Board

2000

Transparent accounting plays an important role in maintaining the vibrancy of our financial markets.

ALAN GREENSPAN
Chairman, Board of Governors of the Federal Reserve Board

Financial Accounting Foundation

The Financial Accounting Foundation, organized in 1972, is an independent, private-sector organization whose Trustees are responsible for overseeing, funding and appointing members of the Financial Accounting Standards Board, the Governmental Accounting Standards Board and their Advisory Councils.

Financial Accounting Standards Board

The Financial Accounting Standards Board, which began operations in 1973, establishes standards of financial accounting and reporting for private-sector entities, including businesses and not-for-profit organizations. Those standards are officially regarded as authoritative by the Securities and Exchange Commission and the American Institute of Certified Public Accountants.

Financial Accounting Standards Advisory Council

The Financial Accounting Standards Advisory Council consults with the FASB on technical issues, project priorities, selection of task forces, and other matters likely to concern the FASB.

Governmental Accounting Standards Board

The Governmental Accounting Standards Board, organized in 1984, establishes standards of financial accounting and reporting for state and local governmental entities. GASB pronouncements are recognized as authoritative by the American Institute of Certified Public Accountants.

Governmental Accounting Standards Advisory Council

The Governmental Accounting Standards Advisory Council consults with the GASB about technical issues, project priorities, selection of task forces, and other matters of interest to the GASB. It also advises the Board on its annual budget and aids the FAF in fund-raising.

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The single most

Important innovation

shaping the

(American capital)

market was the idea of

generally accepted

accounting principles.

We need something

similar internationally.

LAWRENCE H. SUMMERS
Former Secretary of the Treasury

The year 2000 brought new challenges to the Financial Accounting Foundation as it continued its support for the ongoing endeavors of both Standards Boards. Overall, the Foundation had a very active year as both Boards were engaged in numerous projects.

Progress was made in the rapidly evolving area of international accounting standard setting and by the Financial Accounting Standards Board on important domestic accounting issues, including the business combinations project. Addressing a variety of challenges, the FASB continued to make accomplishments in its objective of making better, more comparable and transparent information available to investors where acquisitions are concerned. Likewise, the Governmental Accounting Standards Board committed much of its efforts to refining its historic reporting model. As state and local governments approach implementation dates, interest in the model has begun to flourish across the nation.

The new year also marked some very important Board and Trustee appointments. As we proceed into 2001, we anticipate that opportunities will be presented in an environment that is fertile for positive change.

International

The global capital markets are growing increasingly interdependent at an accelerated pace. This is a positive development for all economies and one that will support capital-raising activities and global growth. The Foundation, the FASB and the International Accounting Standards Committee (IASC) have long recognized that in order for international capital markets to function properly, a single set of high-quality, international accounting standards must exist.

The agreement reached in May of 2000 to restructure the IASC was a historic event. I am pleased to report that the Foundation was an important participant in this process through the hard work of Foundation Trustee David Ruder and FASB member Tony Cope. David and Tony were members of the Strategy Working Party, which was charged with the responsibility of developing a restructuring plan. Over a period of about two-and-one-half years, this team of 12 completed its task in early 2000, finalizing a blueprint for a newly formed IASC.

The restructuring of the IASC—renamed the International Accounting Standards Board (IASB)—was accomplished through an independent group of Trustees chaired by former U.S. Federal Reserve Chairman Paul Volcker. In January of 2001, the Trustees announced the appointment of a 14-member IASB to be chaired by Sir David Tweedie, former Chairman of the U.K. Accounting Standards Board. That body, comprised of leading accounting professionals from several countries, will work toward development of a single set of high-quality global accounting standards. Among those appointed to the IASB were Tony Cope and Jim Leisenring of the FASB.

As part of that recent announcement, two of the Foundation's Trustees were appointed Trustees of the IASB, David Ruder and John Biggs. I am confident that David and John will provide the same level of commitment to the IASB that they have continued to demonstrate at the Foundation. We support their participation and look forward to a close relationship with the IASB.

The global capital markets are growing increasingly interdependent at an accelerated pace.

Manuel H. Johnson,
Chairman and President
Financial Accounting Foundation

For our part, the Foundation and the FASB welcomed the restructuring result as a key element in the establishment of a fully independent international accounting standard setter that will work toward providing the essential convergence among national IASB standard setters as we rapidly approach a global capital market system. We were pleased that the restructuring was consistent with the long-held views of the FAF and the FASB as expressed in the latter's 1999 report *International Accounting Standard Setting: A Vision for the Future.*

Business Combinations

Through the hard work of its members, its staff and constituents, the FASB has achieved many accomplishments in its efforts to promote the use of one single method of accounting for business combinations—the purchase versus pooling-of-interests method of accounting.

We at the Foundation are pleased to acknowledge the FASB's commitment to an open and due process in the business combinations project—as well as all of its activities. On this one project alone, the time and effort that the Board has taken to meet with a wide range of constituents represent a critical part of the Board's process. After hearing comments from hundreds of constituents and reviewing all the issues through numerous public meetings—including hearings before Congress—the FASB has continued to broaden its knowledge base on this subject. By taking the opportunity to review diverse viewpoints, the FASB enriches its deliberative process and, ultimately, its future decisions.

On behalf of the Trustees, I would like to acknowledge the FASB's efforts to maintain an open process throughout the course of this project.

GASB's Reporting Model

Following completion of Statement 34 in 1999, we are pleased to report that the GASB labored tirelessly throughout 2000 to communicate with state and local governments about its new reporting model and provided critical implementation guidance. To support this effort, the GASB published an implementation guide in April of 2000, which became the cornerstone of training guidance. In addition to this and other published materials designed to help preparers and users of governmental financial statements become more familiar with the Statement and its use, the GASB held numerous meetings across the country to promote the model. Further enhancing these efforts, the GASB sponsored training sessions and participated in a teleconference that was broadcast to more than 5,000 constituents.

The GASB's commitment to the new model has begun to reap rewards, with several governments having become early implementers in 2000. The Board will continue to provide guidance in 2001 as more state and local governments join the ranks of implementers.

FASB and GASB Appointments

FASB

An announcement of Mike Crooch's appointment to the Board was made in last year's letter, and Mike began his five-year term in July of 2000. Mike, a former partner and director of the International Professional Standards Group at Arthur Andersen, is the Board member charged with the primary responsibility of overseeing international accounting activities at the FASB, beginning in April of 2001. Mike will assume this responsibility following long-time FASB associate Jim Leisenring's departure to the IASB where he will serve as the IASB liaison to the U.S.

In January 2001, the Foundation announced the appointment of two new FASB members, Katherine A. Schipper, of Duke University, and John K. Wulff, of Union Carbide, who will succeed outgoing FASB members Gary Mueller and Gaylen Larson, respectively, when the latter two will complete their terms this summer.

I would like to take this opportunity to extend our special thanks to Gary and Gaylen for their positive contributions and commitment to the FASB over the years and wish them the best in their future pursuits.

We are delighted to have Katherine and John join the Board and believe that each brings a unique set of strengths to the organization. Katherine, recognized in academic circles for her contributions to accounting and her expertise in financial reporting and accounting research, will be a great asset to the FASB. John's impressive credentials and experience in both industry and public accounting will make a significant contribution to the team. His background as the CFO of a Fortune 300 company with domestic and international operations will be invaluable to the Board.

Prior to joining the faculty of Duke University's Fuqua School of Business, Katherine had previously been on the faculty of the University of Chicago and, previous to that, Carnegie-Mellon University's Graduate School of Industrial Administration. She is a past President of the American Accounting Association and from 1997 to 1998 was its Distinguished International Visiting Lecturer. Katherine was a member of the FASB's Financial Accounting Standards Advisory Council from 1996 to 1999. She received a B.A. degree from the University of Dayton and M.B.A., M.A. and Ph.D. degrees from the University of Chicago.

During John's distinguished career at Union Carbide, he served as CFO since 1996 with responsibility for directing the company's global financial control operations, including its internal and external audits and corporate financial reporting. From 1989 to 1995, he was Vice President and Principal Accounting Officer. Prior to joining Union Carbide, John, a certified public accountant, was a partner with KPMG Main Hurdman in Stamford, Connecticut, from 1980 to 1987 and, previous to that position, was a partner with Hurdman and Cranstoun in New York City.

Active in professional organizations, John is a past Chairman of the Financial Executives International Committee on Corporate Reporting and is a member of the American Institute of Certified Public Accountants. He earned a bachelor's degree from the Wharton School of the University of Pennsylvania.

As Tony Cope and Jim Leisenring depart for the IASB, we thank them for their many contributions to the FASB and wish them well in their new standard setting roles.

GASB

Last year we announced in this letter that William W. Holder had been appointed to the GASB. Bill, the Ernst & Young Professor of Accounting at the University of Southern California, came on board in June of 2000. Since his arrival, Bill has been an important addition to the GASB and has brought a wealth of experience in accounting and reporting issues to the organization.

Cynthia B. Green and Richard C. Tracy were reappointed to the GASB in October of 2000 for five-year terms, effective July 1, 2001. Cindy, former Vice President for state studies of New York's Citizens Budget Commission, has been a member of the GASB since July 1997. Dick, Director of Audits for the City of Portland, Oregon, was first appointed to the GASB effective July 1999, to complete the balance of the term of a former member. Based on their past contributions to the GASB, we are confident that the Board will continue to benefit from Cindy's and Dick's outstanding participation.

Cindy joined the staff of the Citizens Budget Commission in 1983. She is a member of the board of New York's Statewide Youth Advocacy, Inc., a member of the Governmental Research Association, and previously served on the GASB's Advisory Council. Cindy holds a doctorate degree in public administration from the Robert F. Wagner School of Public Service at New York University, a master's degree in urban affairs and policy analysis from the New School University in New York and a bachelor's degree from Cornell University.

Dick has been Director of Audits for the City of Portland, Oregon, since 1983. He has been an adjunct professor at Portland State University for eight years. Before joining the city, he was an audit manager for the Office of the California Auditor General. Dick served as the Chair of the U.S. General Accounting Office's Advisory Council on Government Auditing Standards and is the former president of the National Association of Local Government Auditors. He previously served as a member of the Government Finance Officers Association's Committee on Accounting, Auditing, and Financial Reporting. Dick holds a bachelor's degree from Arizona State University and a master's degree from Golden Gate University.

I can think of no more important role for the FAF than its diligent guardianship of an independent open process, enabling our Boards to promulgate the highest quality financial accounting standard setting possible.

Fund-Raising Activities

In order for the FASB and GASB to effectively carry out their standard-setting missions and continue to make important contributions to their constituencies, the Trustees are focused on the need for increased fund-raising. This is a critical task for the Foundation and one that grows in importance every year.

As reported last year, the Trustees engaged a fund-raising consulting organization that has made a number of recommendations, including more active involvement by the Trustees in making fund-raising contacts. Under the strong and enthusiastic leadership of the Development Committee Chair, Bill Parfet, we have acted on those recommendations and brought in an additional

$718,000 from new and existing contributors. Those increases were partly offset by a number of former contributors who declined to give in 2000 or reduced their level of support. Some of those contributors have already restored their support in early 2001 after further follow-up by the Trustees.

The overall positive results have reversed the negative trends of the past several years in certain categories of giving. Our challenge is to continue this campaign and better communicate the importance of financial support to maintaining standard setting in the private sector.

Financial Results

Before investment income, the FAF's operating deficit for 2000 was $917,000, about a 13% improvement from the deficit in 1999. Investment income of $14,000, however, reflected the declining stock market and compared unfavorably to investment income of $3.3 million in 1999. Overall in 2000, expenses exceeded revenues by $903,000.

Operating revenues of $21.1 million were about 5% higher than the prior year as electronic licensing revenues continued to grow and guides to the new governmental reporting model sold well. Operating expenses were up by about 4%, reflecting increases in salaries and wages.

We continue to do our best to be cost effective while serving the capital markets with high-quality standards of financial reporting.

Trustee Appointments

In 2000, Ned Regan resigned from the Foundation's Board after being appointed President of Baruch College, and Paul R. Soglin, Investment Advisor Representative of Lincoln Financial Services, completed his second and final term. We thank them for all their hard work and wish them continued success in their future endeavors. Ned and Paul were succeeded by the appointments of Douglas R. Ellsworth and Richard D. Johnson, respectively, who were named to the Foundation's Board of Trustees.

Doug is the Director of Finance of Mount Prospect, Illinois. He has served as President of the Government Finance Officers Association. He received a bachelor's degree in accounting from Illinois State University and a master's degree in public administration from Roosevelt University.

Richard is the Auditor of the State of Iowa, a position he has held since 1979. He has served as President of the National Association of State Auditors, Comptrollers and Treasurers. He received a bachelor's degree in accounting from Drake University.

Four members were reappointed to the Board of Trustees. They are John J. Brennan, Chairman and CEO, The Vanguard Group, Inc.; Nicholas G. Moore, Chairman, PricewaterhouseCoopers; William U. Parfet, Chairman and CEO, MPI Research; and Steve M. Samek, Partner, Andersen.

I was pleased to be re-elected Chairman and President of the Foundation and look forward to working with the Foundation's Trustees in providing oversight and support for both Standards Boards.

Other officers appointed to the Foundation for 2001 include Earle E. Morris, Vice President, and Philip N. Duff, Secretary and Treasurer. Earle is the first Trustee from the government sector to serve as an officer of the Foundation.

In Conclusion

I can think of no more important role for the FAF than its diligent guardianship of an independent open process, enabling our Boards to promulgate the highest quality financial accounting standard setting possible. That effort remains of vital importance to U.S. and global capital markets—as well as to financial statement users—in making investment decisions.

Thanks to the ongoing commitment of the Trustees, both Standards Boards, their staff, and our numerous constituencies, who continue to participate in the process, I remain optimistic that the FAF will continue to meet its responsibilities. All of those who support the Foundation's efforts have my sincere gratitude and appreciation.

Manuel H. Johnson
Chairman and President
Financial Accounting Foundation

Members

John H. Biggs [1,3,7]
Chairman and Chief Executive Officer
TIAA-CREF

John J. Brennan [1,3,5]
Chairman and Chief Executive Officer
The Vanguard Group, Inc.

Philip N. Duff [3,4,6]
Partner, FrontPoint Partners

Douglas R. Ellsworth [1,5,7]
Director of Finance
Village of Mount Prospect, Illinois

Peter C. Goldmark, Jr. [6]
Chairman and Chief Executive Officer
International Herald Tribune

Manuel H. Johnson [4,6]
Co-Chairman
Johnson Smick International

Richard D. Johnson [1,2,6]
Auditor of State, State of Iowa

Greta E. Marshall [2,3,5]
Principal, The Marshall Plan

Nicholas G. Moore [1,5,6]
Chairman, PricewaterhouseCoopers

Earle E. Morris, Jr. [1,4,7]
Chairman, Carolina Investors, Inc.

Judith H. O'Dell [2,3,5]
Managing Shareholder
Beucler, Kelly & Irwin, Ltd.

William U. Parfet [1,3,4]
Chairman and Chief Executive Officer
MPI Research

Stephen C. Patrick [1,7]
Chief Financial Officer
Colgate–Palmolive Company

David S. Ruder [2,4,6]
William W. Gurley Memorial Professor of Law
Northwestern University School of Law

Steve M. Samek [2,4,7]
Partner, Andersen

Jerry J. Weygandt [5, 7]
Arthur Andersen Alumni Professor of Accounting
University of Wisconsin School of Business

Committees

[1] Appointments and Evaluations – John J. Brennan, Chair

[2] Audit – Greta E. Marshall, Chair

[3] Development – William U. Parfet, Chair

[4] Executive – Manuel H. Johnson, Chair

[5] Finance – Jerry J. Weygandt, Chair

[6] International – David S. Ruder, Chair

[7] Personnel Policies – Earle E. Morris, Jr., Chair

Sponsoring Organizations of the Foundation

American Accounting Association

American Institute of Certified Public Accountants

Association for Investment Management and Research

Financial Executives International

Government Finance Officers Association

Institute of Management Accountants

National Association of State Auditors, Comptrollers and Treasurers

Securities Industry Association

The

Quality of information

we now receive from

companies in the U.S.

is about the best

we have ever seen

and exceeds that of almost

any other nation.

ABBY JOSEPH COHEN
Chair, Investment Policy Committee
Goldman, Sachs & Co.

The Financial Accounting Standards Board entered 2000 with an important emphasis on listening to and learning from our constituents to help us better understand a wide variety of financial reporting issues and perspectives. That knowledge base helped us formulate the most appropriate solutions to a range of topics—from developing a global strategy to addressing a spectrum of technical issues.

The FASB concluded 2000 with a series of accomplishments along with new challenges. We made progress on many projects during the year, including business combinations, international activities, fair values of financial instruments, securitizations, ongoing guidance on derivatives, and the recent completion of the Business Reporting Research Project.

International

Among the developments affecting the FASB in 2000 was increased attention on the globalization of the financial markets. This has placed heightened interest and emphasis on the quality of international accounting standards and the process for developing those standards. In order for companies from around the globe to share equal access to the capital markets, financial reporting must provide greater comparability and credibility. These issues have underscored the need for a single set of high-quality accounting standards.

As reported in my letter of last year, plans were well underway to restructure the International Accounting Standards Committee (IASC). The FASB supported this effort and contributed to its reformation. This effort included Board member Tony Cope's and FAF Trustee David Ruder's participation on the Strategy Working Party that developed the blueprint for what would become the newly restructured IASC. Since that time, much progress has been made and, in January of 2001, the IASC announced its restructuring and the selection of a Board comprising primarily full-time members—renamed the International Accounting Standards Board (IASB).

While the FASB's primary focus has always been on U.S. accounting standards, it also has been an important contributor to the convergence of international accounting standards. In 2000, we continued to support this effort through our participation in the G4+1, a group of accounting standard setters consisting of representatives from Australia, Canada, New Zealand, the U.K., the U.S., and the IASC. Carrying on its mission of encouraging dialogue and collaboration among participating nations, the G4+1 published two reports last year. The first was on a new approach to lease accounting and the second focused on share-based payments. Following the recent formation of the IASB, the G4+1 disbanded in anticipation that much of its past work will be addressed in the future through the IASB.

Yet another example of FASB participation in the global accounting arena during the year 2000 was the publication of a Special Report on the fair value of financial instruments. The report was published in collaboration with several national standard setters from around the globe and the IASC that were brought together through the Joint Working Group (JWG) of standard setters. The report recommends far-reaching changes to accounting practices for financial instruments and similar items, including measurement of virtually all financial instruments at fair value and the elimination of special accounting for instruments used in hedging relationships.

Among the developments affecting the FASB in 2000 was increased attention on the globalization of the financial markets.

Edmund L. Jenkins, Chairman
Financial Accounting Standards Board

FASB and IASB: Partners in Convergence

As we participate in the critical task of developing sound and consistent global standards, we look forward to a close, constructive and active relationship with the IASB. We are particularly pleased that Tony Cope, a FASB member, and Jim Leisenring, former FASB member and currently our Director of International Activities, will become members of the IASB. Jim will serve as its liaison to the FASB.

We will work in partnership with the IASB and contribute to projects that are international in scope and have important implications for our U.S. constituents. That will be the frame of reference for us in participating in specific projects with the IASB. Mike Crooch has been designated the Board member who will assume responsibility for FASB international activities, following Jim's departure. Mike, who has considerable experience in international accounting, has served on the IASC's Executive Committee. Prior to joining the FASB in July of 2000, Mike was Director of the International Professional Standards Group at Arthur Andersen.

Business Combinations: Progress in 2000

During the past year, we have made important progress on our business combinations proposal. While going through our deliberative process on this issue, we reviewed and analyzed all aspects of the purchase versus pooling-of- interests methods of accounting for business combinations. Throughout this process, we maintained an ongoing dialogue with our constituents on a range of concerns and gained a great deal from our two-way communications.

We testified about the project on three separate occasions before Congress, once in the House, another time in the Senate, and later in a Senate roundtable discussion. In addition, we held four days of public hearings to obtain the views of our constituents and read through hundreds of letters, as we worked together to develop what we believe will be the best set of solutions.

In December of 2000, we announced that the Board had made a tentative decision to take a nonamortization approach to goodwill under the purchase method of accounting. Rather than have companies write off goodwill against earnings for up to 20 years as originally proposed, after thorough analysis we concluded that it would be more appropriate to test goodwill for impairment. An impairment test would be required if a triggering event took place that significantly changed the value of goodwill.

In January of 2001, the Board unanimously reconfirmed its earlier decision that the purchase method of accounting is superior to the pooling method and, therefore, should replace it. The purchase method provides far better information for investors to track the initial cost of a transaction and the investment's performance over time.

As follow-up to the Board's tentative decision on the proposed treatment of goodwill, in February of 2001 we published an Exposure Draft detailing the proposal, providing a 30-day comment period. We are currently reviewing comment letters and will redeliberate all the issues that comprise the business combinations package with the goal of issuing a final standard in June 2001.

Consolidations Policy

The FASB's consolidation policy project team has worked to develop new standards that would determine which affiliates would be included in consolidated financial statements. The Board had previously planned to issue both a final Statement and an Exposure Draft on different aspects of this project in the second quarter of 2001.

After careful consideration, we determined that there was not enough Board member support to proceed with a final Statement. A considerable amount of attention was given to concerns about elements of control and identifying limited special-purpose entities. The Board continues to believe that guidance in the area of consolidation policy is desirable and has asked the FASB staff to reassess the approach for providing that guidance.

Because of the impending change in the Board's membership on July 1, 2001, the staff is expected to present its assessment of and proposal about the consolidation policy project for Board consideration in the third quarter of 2001.

Conceptual Framework

As part of the Board's commitment to further developing a conceptual framework on which to build future accounting standards, in 2000 we issued Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*.

The FASB has always seen the conceptual framework as a living document, and Concepts Statement No. 7 is the latest addition. This Concepts Statement examines the concepts that support a particular measurement technique.

The Board reached several important conclusions in this Concepts Statement.

The objective of present value is to capture, to the extent possible, the economic differences between sets of future cash flows. While several measurement approaches might meet that objective, the Board concluded that fair value should be the objective when present value is used in accounting measurements on initial recognition and fresh-start remeasurements. Concepts Statement 7 also articulates the expected-cash-flow approach to present value computations and describes the role of an entity's credit standing in the measurement of its liabilities.

Every important addition to the conceptual framework has invited controversy, and Concepts Statement 7 is no exception. However, we have found that many constituents may see this document as more complex and revolutionary than the Board intended. With that in mind, we have begun work on a series of articles that we believe will help to build a common understanding of this important document.

Other Technical Projects

The Board also made significant progress on a number of other projects on its agenda. Our project on asset retirement obligations is nearing completion and another on asset impairments and disposal issues is in the redeliberation stage following the end of the comment period on an Exposure Draft issued in 2000. We also issued an Exposure Draft on liabilities and equity which we will redeliberate later in 2001.

Derivatives and EITF: Tackling Challenges Together with Constituents

Reaching out to users of financial statements is an integral part of the FASB process. Much of the progress we made in 2000 on developments in both the derivatives project and the Emerging Issues Task Force (EITF) areas drew on this approach.

To respond to numerous constituent requests for a number of changes, the Board agreed to make modifications to simplify the impact of Statement 133 and its implementation in several major areas. These modifications resulted in Statement 138, issued in 2000. Through these modifications, we broadened the eligibility requirements for normal purchases and sales exceptions. In addition, we also redefined interest rate risk to enhance its comparability with an entity's previous practices. The Board also relaxed some of its requirements relating to foreign currency risk in a number of areas.

The issues raised in connection with the challenges of implementing Statement 133 were brought forth by constituents and members of the Derivatives Implementation Group (DIG). The DIG, sponsored by the FASB and comprising 12 constituent members, plays a pivotal role in identifying and analyzing critical issues relating to derivatives and hedging. In 2000, the DIG convened in six public meetings. To increase awareness about the issues and the progress made by the DIG, the FASB posts material about derivatives on its website—from tentative conclusions that invite public comments to cleared Board guidance. In sum, the process continues to be very successful in identifying and addressing a broad range of constituent needs.

The same level of commitment to the constituent is embodied in the accomplishments of the EITF. In 2000,

We at the FASB have been able to exercise a leadership role in financial reporting standards for more than a quarter century. We are committed to continuing this great tradition.

the task force tackled a broad range of concerns raised by our constituents. The EITF, representing those FASB constituents, had six public meetings in 2000 and held numerous Working Group sessions, further tapping into the perspectives of those we represent.

Business Reporting Research Project

In 1994, the American Institute of Certified Public Accountants Special Committee on Financial Reporting issued recommendations calling for improved types of information in business reporting and developed a comprehensive model of business reporting indicating the types and timing of information that users need to value and assess the risk of their investments. In response, in 1998, the FASB sponsored the Business Reporting Research Project, covering three important areas of interest to the investment and financial communities. Guided and directed by a 14-member steering committee—representative of the Board's constituencies—the committee oversaw the research and development of these studies. The first of the reports, published in early 2000, covered the electronic distribution of business information. In this report, the dissemination of a range of information appearing on corporate websites was surveyed and analyzed.

A second report on voluntary disclosure practices was completed in January of 2001 and has attracted much attention. In this study, covering the financial reporting practices of eight different industries, the breadth and depth of corporate disclosures are examined. The report features new and groundbreaking coverage of information contained in 10-Ks, analyst presentations, annual reports and company websites.

The third in the series focused on redundancies in financial reporting requirements between GAAP and the SEC. This report was published in March of 2001 and brings to light the need for streamlining certain reporting requirements to eliminate duplicative processes and enhance the ease of preparing and using financial statements.

Importance of an Open and Independent Process

The subject of business combinations—specifically, the proposed elimination of the pooling-of-interests method of accounting—was the focus of considerable attention by the U.S. Congress during the year 2000. As always, we strive to keep Congressional leaders fully informed about our work and welcome their views on our process. However, accounting standards must be free from political considerations if they are to be effective and responsive to the needs of a broad constituency. Our position is simple, clear and forthright. We believe it is essential that the standard-setting process in the U.S. remains independent, open and in the private sector.

We at the FASB have been able to exercise a leadership role in financial reporting standards for more than a quarter century. We are committed to continuing this great tradition. Only by listening to and learning from our constituents can the Board maintain its effectiveness and responsiveness. And, only after conducting our deliberations in a transparent manner that keeps FASB's constituencies fully informed, will we reach well-reasoned conclusions and issue the highest quality financial reporting standards.

Board Changes

As announced in last year's letter, Mike Crooch was appointed to the Board and joined us in July of 2000. In January of 2001 the Financial Accounting Foundation Trustees announced two new Board appointments, Katherine A. Schipper, the L. Palmer Fox Professor of Business Administration at Duke University's Fuqua School of Business, and John K. Wulff, Chief Financial Officer of Union Carbide Corporation. Katherine and John will succeed Gerhard G. Mueller and Gaylen N. Larson, respectively. Katherine brings important accounting research experience and academic credentials to the Board and John's background as the CFO of a large multinational company will provide a strong contribution from the preparer perspective.

With Tony Cope's announced departure to the IASB, the FAF Trustees are currently in the process of identifying his Board replacement with completion of the search expected in the spring of 2001.

I also would like to take this opportunity to thank Gaylen Larson and Gary Mueller whose hard work and commitment during their Board terms was most appreciated. They will depart the FASB this summer. As to other changes, Tony Cope, a Board member since 1993 and Jim Leisenring, former Vice Chairman of the Board and currently Director of International Activities, will leave in the spring of 2001 for their new positions at the IASB. We thank both of them for their many years of fine service to the FASB and wish them well in their new endeavors.

In Appreciation of Your Support

I am proud and pleased to be affiliated with this organization and the people who make it work—our Board members, staff and constituents. I am grateful for all of your efforts during the year 2000 and eagerly anticipate contributions from everyone as we continue our commitment to high-quality financial reporting standards for the benefit of investors and the capital markets.

Edmund Jenkins

Edmund L. Jenkins
Chairman
Financial Accounting Standards Board

Members

Terms expire on June 30 of year indicated.

Edmund L. Jenkins, *Chairman*	2002
Anthony T. Cope	2003
G. Michael Crooch	2005
John M. Foster	2003
Gaylen N. Larson	2001
Gerhard G. Mueller	2001
Edward W. Trott	2004

Members of the Financial Accounting Standards Board serve full time and are required to sever all ties with the institutions they served previously. Mr. Jenkins was the Managing Partner of the Professional Standards Group of Arthur Andersen LLP's worldwide practice; Mr. Cope was Director of Fixed Income Credit Research and a Senior Vice President and Partner of Wellington Management Company; Mr. Crooch was a Partner and Director of the International Professional Standards Group at Arthur Andersen, LLP; Mr. Foster was Vice President and Treasurer of Compaq Computer Corporation; Mr. Larson was Group Vice President and Chief Accounting Officer, Household International, Inc.; Mr. Mueller was the Julius A. Roller Professor of Accounting at the University of Washington; and Mr. Trott was head of the Accounting Group of KPMG's Department of Professional Practice.

Documents Issued in 2000

Statement No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*

Statement No. 139, *Rescission of FASB Statement No.53 and Amendments to FASB Statements No. 63, 89, and 121*

Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*

Interpretation No. 44, *Accounting for Certain Transactions involving Stock Compensation*

Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*

Exposure Draft, *Accounting for Obligations Associated with the Retirement of Long-Lived Assets*

Exposure Draft, *Accounting for the Impairment or Disposal of Long-Lived Assets and for Obligations Associated with Disposal Activities*

Exposure Draft, *Accounting for Financial Instruments with Characteristics of Liabilities, Equity, or Both*

Exposure Draft, *Proposed Amendment to FASB Concepts Statement No. 6 to Revise the Definition of Liabilities*

Special Report, *Leases: Implementation of a New Approach*

Special Report, *Accounting for Share-Based Payment*

Special Report, *Financial Instruments and Similar Items* Joint Working Group of Standard Setters

Business Reporting Research Project, *Electronic Distribution of Business Reporting Information*

Accounting for Derivative Instruments and Hedging Activities (FASB Statement No. 133 as amended and interpreted)

Documents Issued in Early 2001

Special Report, *A Guide to Implementation of Statement 140 on Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* Questions and Answers

Business Reporting Research Project, *Improving Business Reporting: Insights into Enhancing Voluntary Disclosures*

Business Reporting Research Project, *GAAP-SEC Disclosure Requirements*

FASAC

Financial Accounting Standards Advisory Council

Report of the Chairman

The Financial Accounting Standards Advisory Council welcomed nine new members to its ranks at a morning orientation meeting in Norwalk on January 24, 2000 followed in the afternoon by FASAC's annual administrative meeting attended by Council members only, in which we discussed ways to improve effectiveness of the Council as an advisor to the FASB.

One outcome of the administrative meeting was a decision to change the quarterly FASAC meeting schedule from the first month of the calendar quarter to the last month. The old schedule presented a problem for a number of members in the preparer and analyst communities due to the timing of corporate earnings releases or board meetings. No single schedule is ideal for all participants, but the new schedule will be tested this year and adjusted if necessary.

As in past administrative meetings, there was a general consensus that Council members wanted to be more involved in the standard-setting process outside of the regular meetings. In the past, Council members have served on project task forces, the Emerging Issues Task Force, and other ad-hoc advisory groups. This year a number of Council members volunteered to participate in a final read of pre-ballot drafts of standards to avoid "fatal flaws" and to assure optimum clarity.

This spirit of support by FASAC members for the standard-setting process and the FASB as an institution was further demonstrated in 2000 when legislative initiatives in the Senate and House threatened to impede progress in issuing a new standard on business combinations. A number of FASAC members immediately wrote to their congressional representatives voicing strong opposition to this intervention.

Consistent with FASAC's role as an advisory body to the FASB, projects under development continued to occupy the major portion of the agenda at the Council meetings in 2000 with the Board's projects on business combinations and consolidations commanding the greatest amount of time. In regard to business combinations, the Council discussed the comment letters received on the September 1999 Exposure Draft as well as the testimony from the public hearings held in San Francisco and New York. Later in the year, as the Board's redeliberations continued, Council discussed the impairment approach for accounting for goodwill. In the first half of 2001, FASAC will continue to provide advice on this important project as the Board moves to complete its deliberations and issue a final Statement.

The consolidations project was also the subject of intense discussion at several FASAC meetings during the year. Much of the discussion focused on the elements of control and also on an approach for identifying significantly limited special-purpose entities. The FASB has recently decided to suspend work on this project and reassess its objectives and scope. A redefined consolidations project may appear on the FASB and FASAC agendas later in 2001.

Other projects discussed at FASAC meetings in 2000 included asset impairment and disposal issues, financial instruments—fair value, financial instruments—liabilities and equity, asset retirement obligations, and the Board's business reporting research project.

FASAC's annual survey on projects and priorities provides a basis for measuring Council members' views on possible new projects for the FASB's agenda as well as the relative priority of projects already under development. As a result of the establishment of the International Accounting Standards Board (IASB), the 2000 survey also solicited comment on the most pressing accounting and financial reporting issues that should be the initial focus for convergence among the world's standard-setting bodies and the IASB. Not surprisingly, Council members identified business combinations as one of the most important areas for common accounting treatment. In evaluating future agenda items for the FASB, Council members assigned high priority to revenue recognition, accounting for intangible assets, and liability recognition.

As we move into the 21st century, the FASB faces the important task of supporting and interacting with the new International Accounting Standards Board. The Council, as always, stands ready to advise the Board on this relationship as well as projects on the technical agenda.

I continue to be impressed with the quality of the people on the Council and staff and their dedication to the process. I extend my thanks to Terri Polley, Executive Director of FASAC, for her very professional administration of the Council. I would also like to express my sincere appreciation to all FASAC members past and present not just for their efforts in advising the FASB but also for their active support of the Board and private sector standard setting.

Robert C. Butler, *Chairman*
Financial Accounting Standards
Advisory Council

Members

Robert C. Butler, *Chairman,* FASAC

Alan W. Anderson, *Senior Vice President – Technical Services,* American Institute of Certified Public Accountants

Fred D. Anderson, Jr., *Executive Vice President and Chief Financial Officer,* Apple Computer, Inc.

William E. Balhoff, *Audit Director*, Postlethwaite & Netterville

Robert T. Blakely, *Executive Vice President and Chief Financial Officer*, Lyondell Chemical Company

Jeannot Blanchet, *Managing Director*, *Professional Standards Group,* Andersen

Barry A. Brooks, Esq., *Partner and Chair*, *New York Office,* Paul, Hastings, Janofsky & Walker LLP

Susan L. Decker, *Senior Vice President Finance and Administration – Chief Financial Officer,* Yahoo!

Joel S. Demski, *Frederick E. Fisher Eminent Scholar in Accounting*, Fisher School of Accounting, College of Business Administration, University of Florida

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Geraldine U. Foster, *Senior Vice President, Investor Relations and Corporate Communications*, Schering-Plough Corporation

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*David M. Jones, *Vice Chairman*, Aubrey G. Lanston & Co., Inc.

Ray L. Krause, *National Director of Accounting*, McGladrey & Pullen, LLP

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Marc E. Lackritz, *President*, Securities Industry Association

Wayne R. Landsman, *KPMG Peat Marwick Professor of Accounting*, Kenan-Flagler Business School, University of North Carolina

Philip B. Livingston, *President and Chief Executive Officer*, Financial Executives International

Dennis W. Monson, *Partner*, KPMG LLP

Gabrielle Napolitano, *Managing Director*, Goldman, Sachs & Co.

Charles H. Noski, *Senior Executive Vice President and Chief Financial Officer*, AT&T

Robert C. Oelkers, *President*, Texaco International Trader Inc., *Vice President*, Texaco Inc.

James A. Parke, *Senior Vice President Finance and Chief Financial Officer*, GE Capital Services

Marianne M. Parrs, *Executive Vice President*, International Paper

Juan A. Pujadas, *Partner*, Pricewaterhouse-Coopers LLP

*John F. Richards, *President*, Crabtree Ventures, LLC

*L. Hal Rogero, Jr., *Chair of Professional Issues*, Institute of Management Accountants

Stephen G. Ryan, *Associate Professor of Accounting and Peat Marwick Faculty Fellow*, Stern School of Business, New York University

Norman N. Strauss, *Partner and National Director of Accounting,* Ernst & Young LLP

*Suresh Thadhani, *Executive Vice President and Chief Financial Officer*, Alcan Aluminum Limited

Peter J. Tobin, *Dean*, College of Business Administration, St. John's University

David M. Walker, *Comptroller General of the United States,* General Accounting Office

Michael C. Wilhelm, *Senior Vice President – Accounting*, E.ON AG

Teresa S. Polley, *Executive Director*

*New members

Completed Service in 2000

Lynn E. Browne, *Senior Vice President and Director of Research*, Federal Reserve Bank of Boston

John T. Ciesielski, Jr., *President*, R.G. Associates, Inc.

Frank C. Minter, *President*, Institute of Management Accountants

C. Wesley M. Scott, *Chief Corporate Officer*, Bell Canada Enterprises

Through the efforts of the Governmental Accounting Standards Board, greater transparency and

Credibility

is brought to state and local government financial reporting, allowing investors to make better-informed decisions.

EDWARD B. RUST, Jr.
Chairman and CEO
State Farm Insurance Companies

The year 2000 saw great progress in getting out the word about the Governmental Accounting Standards Board's new reporting model (Statement 34) and in advancing several other important technical projects that had been placed on hold in previous years to allow GASB members and staff to focus on the reporting model project. It also was a time to reexamine our strategic directions.

It has been gratifying to see governments around the country begin early implementation of Statement 34 and to receive supportive responses from constituents, including those who have shared positive comments from their governing boards and local news media.

Statement 34: Implementation Guidance and Training Efforts

In April of 2000, the GASB issued an extensive implementation guide that contains answers to 290 implementation questions and also includes numerous illustrations of financial statements for different types of government entities. The guide also illustrates different format options provided in Statement 34 and presents a variety of "how-to" exercises to help with the implementation of certain requirements, such as infrastructure reporting.

This implementation guide was presented and provided to over 5,000 participants in a national teleconference sponsored in May of 2000 by two of the GASB's constituent organizations. Efforts are underway to plan a second teleconference for 2001, and GASB staff will again play an important role in this training effort.

Almost all government finance official organizations, as well as audit organizations and financial statement user organizations, are providing training to their members in the preparation, auditing and use of financial statements prepared in compliance with the new reporting model. In 2000, GASB members and staff participated extensively in 164 of these training efforts throughout the country. This participation is limited so as not to interfere with the research and deliberation of topics on the GASB's technical agenda. Importantly, our participation affords GASB members and staff an opportunity to meet and hold discussions with constituents around the country.

Early Implementation of Statement 34

Although nearly all GASB standards encourage early implementation of provisions, early implementation of Statement 34 was strongly encouraged in an effort to provide learning experiences that could be shared with governments around the country. By the end of 2000 we had received copies of twenty government financial statements reflecting early implementation of Statement 34. To date, these reports represent a cross section of governments from around the country and include larger governments as well as those considered medium- or small-sized. There have been a number of encouraging "themes" that were shared by almost all early implementers.

One of those shared experiences included the observation that the implementation effort, while significant, was not as great as the finance directors and auditors had initially thought it would be. Another observation was that retroactive general infrastructure reporting, which had been such a contentious issue during the due process leading up to issuance of the standard, was not as difficult as many had expected. Accordingly, most early implementers included general infrastructure information in their initial implementation statements rather than wait the additional four years provided for in the standard.

It has been gratifying to see governments around the country begin early implementation of Statement 34 and to receive supportive responses from constituents…

Tom L. Allen, Chairman
Governmental Accounting Standards Board

These and other observations have been shared by GASB and by early implementers, as they have participated in a number of national and local training seminars around the country. In addition, the GASB has featured a number of these individuals by including their implementation experiences in a question-and-answer format in the GASB's monthly "Action Report." The GASB website also lists governments that have implemented early and provides links to the websites of these governments where copies of their financial statements are accessible.

As GASB Chairman, I also have written letters to the finance directors, their supervisors and governing boards recognizing their efforts. In addition, certificates of recognition also are awarded to these governments. Copies of these letters and other information about Statement 34 and the GASB also are being mailed to the local news media about early implementers, and several of them have received very positive media coverage for their efforts. Many additional governments are expected to implement Statement 34 early, and we will continue to provide governments as much assistance as we can as well as recognize their future efforts.

User Outreach

The GASB has been making a concerted effort to reach out to the users of governmental financial statements. Our ultimate goals are to gather the additional insight we need to make financial statements more useful and to raise the public's awareness about the value of financial statement information to the decision-making process. Board members and staff met with many user groups and made presentations to them.

A primary initiative was the development of a series of guides to government financial statements written with users in mind. The user guide series is the GASB's first attempt to explain in nontechnical language what information may be found in a government's financial statements and how that information may be used to make better informed decisions. The first two guides in the series—*What You Should Know about Your Local Government's Finances: A Guide to Financial Statements* and *What You Should Know about Your School District's Finances: A Guide to Financial Statements*—were written to be easily grasped by any reader, even those without any prior knowledge of accounting or experience with government finance. The third guide—*An Analyst's Guide to Government Financial Statements*—was written for more experienced and intensive users. This guide has been used as a text for user group seminars and workshops on Statement 34.

Another first for the GASB during 2000 was the publication of a plain-language supplement to the June 2000 Exposure Draft for our note disclosures project. The supplement explained the proposals in nontechnical language, focusing on the type of information that would result from the proposals and how that information might be used. The plain-language supplement was distributed with the Exposure Draft to over 700 users and was made available on the GASB website.

Service Efforts and Accomplishments (SEA)

One of the financial reporting objectives identified in GASB Concepts Statements is that "financial reporting should provide information to assist users in assessing the service efforts and accomplishments of the governmental entity." Thanks, in part, to a significant grant provided by the Alfred P. Sloan Foundation, the GASB continues to focus staff resources on the SEA project. One of the purposes of the project is to encourage increased reporting of performance measurement information by state and local governments. Staff research is focused on better understanding of this subject and sharing usage experiences and reporting of SEA performance information. From the knowledge gained, the staff will make a recommendation to the Board regarding the need to consider possible standards for service efforts and accomplishments information in general purpose external financial reports.

During the initial two years of this grant, we established a performance measurement website on the Internet and completed 26 site visits with governments that have been using performance measures for budgeting, management and reporting. We have determined that an impressive amount of experimentation is occurring, and a number of very important citizen-focused initiatives are in progress.

In October, the Alfred P. Sloan Foundation provided us with an additional grant allowing us to continue our expanded and accelerated research on performance measures for three additional years. Using this resource over the next three years, we plan to:

- Conclude our analysis and evaluation of users' responses to performance measures—especially those of citizens, legislators and the media;
- Develop a set of methods for communicating performance measures and publish guidelines on reporting and effective communication;
- Encourage experimentation with the suggested guidelines by state and local governments; and
- Evaluate the effectiveness of the guidelines and whether performance measures possess the characteristics needed for inclusion in general purpose external financial reporting.

With each of these activities, we will continue to publish reports on our findings, as well as suggested guidelines for state and local governments based on our research, and how to effectively communicate performance measures.

GASB Websites

The GASB currently maintains two linked websites—the official GASB site at www.gasb.org and another website dedicated to performance measurement for governments, sponsored by the Alfred P. Sloan Foundation at www.seagov.org.

The GASB's website, which was expanded in 2000 to include a new section that assists our constituents with the implementation of the new financial reporting model, includes the following:

- Links to more than three dozen websites providing online documents and other information;
- Roster of governments that have implemented Statement 34 early, with links to their websites and electronic versions of their financial statements;
- Bibliography of relevant articles and other publications;
- Calendar of workshops and seminars on Statement 34 around the country; and
- List of online discussion groups and bulletin boards devoted to Statement 34.

In addition, the new section provides the GASB's documents and background information, announces relevant news and offers information about ordering GASB publications on Statement 34.

The GASB's performance measurement website provides a wealth of valuable information both for government practitioners responsible for—or considering—measuring service performance and for citizens who are curious about how their governments are performing or are interested in participating in the process.

This site also is used to report on GASB research results on our service efforts and accomplishments project, share information obtained through this research, and provide information to other governments wishing to participate in the project.

Note Disclosures

Following several years of research to determine whether current required note disclosures met the information needs of users of governmental financial statements, an Exposure Draft that proposed modifications to current disclosures and additions to certain disclosures was issued in June of 2000. In the fourth quarter of 2000, the Board held three public hearings on the Exposure Draft. At one of the hearings a public forum bringing together preparers and auditors in panels also was held for part of the day. The GASB continues to deliberate due process comments and plans to issue a final standard in June 2001.

Other Postemployment Benefits (OPEB)

The Board has made substantial progress toward its goal of providing accounting and financial reporting standards, including disclosures, for nonpension postemployment costs such as health care costs. During 2000, a number of key decisions were made that provided the basic direction for this project. Those decisions include agreement that a government's promise to provide health care represents an expense to the government and that an accrual-based standard that will systematically and rationally allocate the cost of promised benefits is needed. Another key decision is that employer reporting of OPEB should follow the same general approach followed in GASB Statement 27 on employer reporting of pensions. Although there is still much work to be done on this project, the Board anticipates issuing an Exposure Draft at the end of 2001.

Other Projects

The Board reactivated its affiliated organizations project to address accounting and reporting issues related to organizations such as fund-raising foundations, research foundations and other types of foundations established by colleges, universities and other state and local governmental units. This has been a conceptually challenging topic with many options considered. Good progress has been made on this project, and the Board anticipates issuance of a revised Exposure Draft in mid-2001.

During 2000, the Board also added a project to its agenda to address issues raised during development of the Statement 34 implementation guide. Although none of the issues addressed in the proposed Statement 34 omnibus project are considered fatal flaws of Statement 34, the project will provide an authoritative status to support guidance provided in the implementation guide and also will provide additional guidance or clarification as needed. An Exposure Draft was issued on this project at the end of 2000, and a final standard is expected in the second quarter of 2001.

Conceptual Framework

During 2000 the Board continued to address its goal of completing its conceptual framework, with primary emphasis on establishing definitions of the various methods of communicating financial and finance-related information to users, including the criteria for using each of the methods such as basic statements, notes and required supplementary information. An important related issue in this conceptual framework—communications methods project is the possibility and implications of using separate reports for communicating certain types of information, such as performance measurements or economic condition indicators.

Strategic Planning

In July of 2000, the Board reevaluated its strategic plan. The existing strategic plan, first adopted in 1997, was outward looking, directed principally at the GASB's external activities such as expanding and improving communications with constituents and better understanding the needs of financial statement users. While these issues continue to be important points of focus, the 2000 updated strategic plan added another key aspect that addresses organizational capacity. The inclusion of this new direction is intended to emphasize the importance of the GASB's staff and internal processes to its external success. The updated plan also reflects the considerable progress made in several of the initial strategic directions.

Board and Staff Changes

As discussed in last year's letter, William W. Holder was appointed to the GASB and joined us in June of 2000. Bill has made a smooth transition in his new Board role and has made important contributions to the GASB's conceptual framework. I also am very pleased to report that in October of 2000, Cynthia B. Green and Richard C. Tracy were reappointed to the Board. Cindy and Dick have continued to make strong contributions to the GASB's accomplishments. Their backgrounds and areas of expertise have been of great benefit to advancing the goals of the organization.

I also want to express my appreciation to Penelope Wardlow, who retired as GASB Senior Research Manager after over 10 years on the staff. Penny's contributions have been countless, with her most notable achievement being the completion of three pension-related statements. Penny's other contributions included work on the nonexchange transactions project (Statement 33), the reporting model project (Statement 34), and her ongoing efforts on the conceptual framework project. Although she continues to assist us in a consulting capacity, Penny's day-to-day presence in the office is missed.

In Closing

I would again like to express my appreciation to the Board, staff, GASAC members, task force members, and others who assisted in the issuance of the reporting model and the implementation and user guides that will greatly assist preparers, attestors and users of financial statements prepared in accordance with Statement 34. I cannot overemphasize the importance and long-term benefits that will accrue as a result of this landmark improvement in governmental financial reporting.

I am appreciative of the governments that have chosen to implement the new reporting model early. Their efforts will provide users of their financial statements with important new information well in advance of the date set forth in the standard, and also provide a wealth of information and assistance to other governments in their implementation efforts.

On behalf of all Board members, I would like to thank the FAF and our constituents for their continued support as we continue to address the often-controversial unmet needs and new challenges that are a part of improved governmental accounting and financial reporting.

Tom L. Allen

Tom L. Allen
Chairman
Governmental Accounting Standards Board

Members

Terms expire on June 30 of year indicated.

Tom L. Allen, *Chairman*	2004
Cynthia B. Green	2006
William W. Holder	2005
Edward M. Klasny	2002
Edward J. Mazur	2002
Paul R. Reilly	2004
Richard C. Tracy	2006

Mr. Allen serves the GASB full time. All other members serve part time. Prior to joining the GASB, Mr. Allen was the State Auditor of Utah; Ms. Green was the Vice President for state studies of New York's Citizens Budget Commission; Mr. Holder is the Ernst & Young Professor of Accounting at the University of Southern California; Mr. Klasny is a retired Partner of Ernst & Young LLP; Mr. Mazur is the Vice President for administration and finance of Virginia State University; Mr. Reilly is the retired Finance Director and Comptroller of Madison, Wisconsin; and Mr. Tracy is the Director of Audits for the City of Portland, Oregon.

Documents Issued in 2000

Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*

Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

Technical Bulletin No. 2000-1, *Disclosures about Year 2000 Issues – a rescission of GASB Technical Bulletins 98-1 and 99-1*

Exposure Draft, *Certain Financial Statement Note Disclosures*

Exposure Draft, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*

Implementation Guide, *Guide to Implementation of GASB Statement 34 on Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*

User Guide, *What You Should Know about Your Local Government's Finances: A Guide to Financial Statements*

User Guide, *What You Should Know about Your School District's Finances: A Guide to Financial Statements*

Documents Issued in Early 2001

User Guide, *An Analyst's Guide to Government Financial Statements*

The Quick Guide to State Government Financial Statements

The Quick Guide to School District Financial Statements

The Quick Guide to Local Government Financial Statements

The Governmental Accounting Standards Advisory Council was an active participant in GASB-related activities throughout 2000. Consistent with its objective to meet annually with at least one of its important constituent organizations, the GASAC participated—along with the GASB—at the National Federation of Municipal Analysts (NFMA) annual conference held in May of 2000. GASB and Council members were represented during various meetings, including a panel discussion by the GASB Chairman and me on Statement 34, note disclosures and other GASB- and GASAC-specific issues. This session drew a large number of attendees and generated much interest in GASB projects. We also met with the NFMA's Executive Committee and made other important contacts at the conference. As a result, NFMA members' understanding of the new reporting model—as well as other projects—was enhanced. In addition, attendees expressed greater awareness of the important role they play in providing feedback to the Board during its due process and information-gathering activities.

A second meeting in which the GASAC participated was the annual conference of the National Association of State Auditors, Comptrollers and Treasurers (NASACT) held in November 2000 in St. Petersburg, Florida. Because a significant number of the GASB's constituents attended this meeting, the GASB fortuitously scheduled its Board meeting, a public hearing, and the GASAC meeting in conjunction with the NASACT conference.

While change has been a recurring theme influencing the work of the GASAC, it was very pervasive in 2000. This was evident in our discussions on implementation of the new reporting model as well as in other areas. Three issues from the note disclosures project were given much attention. They included disaggregation balances, interfund transfers and variable rate debt. Considerable discussion was generated among GASAC members related to the utility of the disclosures. Members also made suggestions regarding revised language that might clarify the intent of the proposed standard.

Another important GASAC function during the year 2000 was support of the GASB's new reporting model. As an increasing number of state and local governments implement Statement 34 and approach various implementation dates contained therein, interest in the model has grown nationally. In addition, there has been lively debate among certain members of the GASAC on performance measurement topics—specifically, service efforts and accomplishments.

While participation at various meetings represented an integral part of GASAC's activities, the Council devoted a considerable amount of attention on other issues, including a thorough analysis of its goals and structure. A key focus for the Council was on development of ways in which GASAC could enhance its advisory role to the GASB. Our 28-member body regularly reviews how it might advise the GASB on technical projects, priorities and accounting issues that are likely to require the Board's attention in the most efficient and effective manner possible.

As a result of our most recent periodic review held in November 2000, changes as to how the GASAC operates were developed. As one example, we supported creation of smaller, more issue-focused committees and task forces that would draw on the interests and expertise of groups of individuals. The rationale behind this approach is to maximize resources that will allow us to accomplish more in less time.

Other changes to GASAC's operating structure include:

• Extending GASAC meetings to one-and-one-half days from one day with the extra time allocated for Council committee and task force meetings;

• Focusing staff and Board presentations to address specific topics with designated task forces that will meet periodically and report back to the entire membership;

• Conducting an annual membership survey to identify emerging issues that should be brought before the GASB; and

• Discontinuing the Finance Committee to allow the GASAC membership to provide fund-raising support, as needed.

In looking ahead at the 2001 calendar, the GASAC meeting to be held in connection with a constituent organization's conference will be the annual conference of the International City/County Management Association (ICMA) slated for September. Similar to last year's meeting line-up, Board and GASAC members will attend various sessions and participate in a GASB-focused panel discussion in conjunction with this important conference that attracts thousands of government officials from across the nation. In 2001, a key area of focus for GASB and GASAC will be on the Other Postemployment Benefits (OPEB) project. This meeting should provide an important forum at which GASB and GASAC can communicate with city and county managers about OPEB as well as the new reporting model.

On behalf of the GASAC, I would like to express my appreciation for all the dedication and important contributions of our members—both current and former—along with the help of the GASB and its staff. We look forward to the challenges ahead and covering them in next year's report.

Harvey C. Eckert
Chairman
Governmental Accounting Standards Advisory Council

Members

Harvey C. Eckert, *Chairman, Deputy Secretary for Comptroller Operations,* Commonwealth of Pennsylvania

*Nicholas C. Alioto, *Assistant Superintendent of Business,* Unified School District 1, Kenosha, Wisconsin

Kenneth R. Artin, Bryant, Miller & Olive, P.A.

Donald J. Boyd, *Deputy Director*, Rockefeller Institute of Government

Merwin L. Chambers, *Senior Accountant,* Municipal Electric Authority of Georgia

Claire Gorham Cohen, *Vice Chairman*, Fitch IBCA Inc.

Karen L. Daly, *Director*, Financial Guaranty Insurance Company

John Engstrom, *KPMG Professor of Accountancy*, Northern Illinois University

Cynthia M. Fenwick, *Assistant Vice Chancellor – Finance/Controller,* University of California – San Francisco

Rosemary Booth Gallogly, *Deputy Budget Officer*, Department of Administration, State of Rhode Island

J. Denise Headrick, *Director of Recoveries*, Promina Health System Managed Care Organization

Walter F. Kelly, *Board President*, Town of Fishers, Indiana

Mary V. Metastasio, *Vice President*, SAFECO Asset Management Company

Stephen L. Price, *Staff Director*, House Appropriations Committee, State of Missouri

William J. Raftery, *Controller*, State of Wisconsin

Robert M. Reardon, Jr., *Investment Officer,* State Farm Insurance Companies

Anne G. Ross, *Senior Vice President and Manager*, Roosevelt & Cross, Inc.

*Robert Scott, *Chief Financial Officer*, City of Carrollton, Texas

William J. Sheldrake, *President*, Indiana Fiscal Policy Institute

*Marcia L. Taylor, *Assistant Manager*, Town of Mt. Lebanon, Pennsylvania

David M. Walker, *Comptroller General of the United States,* General Accounting Office

Steven Weinberger, *Director*, Connecticut State Employees Retirement System

James M. Williams, *Partner*, Ernst & Young LLP

Corrine G. Wilson, *Director of Tribal Government Services,* Egghart & Associates

Jon A. Wise, *Vice Chairman, Director of Professional Practice*, Office of Auditor General, State of Michigan

*New members

Completed Service in 2000

Mark Altom, *Treasurer,* Davis County, Utah

E. Danny Cash, RSBA, *Assistant Superintendent, Finance/Operations,* Community Consolidated School District 21, Wheeling, Illinois

Bruce Haddock, *City Manager*, City of Oldsmar, Florida

Walter K. Knorr, *Chief Financial Officer*, City of Chicago, Illinois

Robert Moore, *Vice President, Public Finance – Underwriting*, Ambac Assurance Corp.

Robert V. Stout, *Director of Finance*, City of Modesto, California

Presentation

The Foundation's financial statements are presented in accordance with FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. The Statements of Activities segregate program expenses of the Standards Boards from support expenses of the Foundation. Program expenses include salaries, benefits and other applicable expenses for the Board members and research staffs, and expenses for the publications, distribution, production and marketing departments and for the library. Support expenses include costs for such services as public relations, finance, human resources, office management, computer systems, fund raising and general administration. This presentation is consistent with the concept that the single program of the Foundation is to establish and improve standards of financial accounting and reporting for private sector and state and local governmental entities.

Overall Financial Results

The Foundation ended the year with a decrease in unrestricted net assets of $903,000. The operating deficit for 2000 was $917,000, and net investment income equaled $14,000. As a result of poor financial market results late in the year, reserve fund investment losses totaled $228,000 in 2000, compared to income of $3,103,000 in 1999. Investment income from cash equivalents and short-term investments totaled $242,000 in 2000, higher than 1999's income of $207,000. Total net operating revenues increased 4.7% for the year, while total expenses grew by 3.8%.

Salaries and benefits continue to comprise a substantial portion of total expenses, over 75% for 2000. Total salaries increased by $808,000, or 5.9 %, in 2000, reflecting cost of living and merit increases for employees, and additional staffing devoted to international activities for a portion of the year. Benefit costs decreased by $212,000, or 9.0%, brought about by lower pension expense under the Foundation's defined benefit pension plans.

Total occupancy and equipment expenses in 2000 were nearly identical to those for 1999. Depreciation and amortization expenses decreased $22,000, or 4.2%, in 2000.

Other operating expenses increased $236,000, or 8.1%, in 2000. The principal reasons for the increase include higher executive search fees for Board members, additional costs related to international activities and larger professional fees in support of fund-raising initiatives.

A more detailed discussion of the Foundation's sources of revenues follows.

Contributions

Contributions for 2000 and 1999 are shown in the table below.

Under a new fund-raising program initiated in 2000, the Trustees participated in the solicitation of certain contributions for the FAF, rather than for support of either Board. This allowed the Trustees discretion in allocating certain contributions. The allocation decisions made are reflected in the following comments.

Gross contributions to the FASB decreased $54,000 in 2000 to $6,314,000. Industry and bank contributions decreased $55,000 to $2,031,000. Support from the public accounting profession decreased slightly, from $3,664,000 in 1999 to $3,608,000 in 2000. Contributions from investment firms and other supporters increased by approximately $179,000 and the value of contributed services was $122,000 lower for the FASB in 2000.

Total contributions to the GASB increased $103,000 during 2000 to $2,296,000. The Alfred P. Sloan Foundation gave $124,000 as their third contribution under a three-year commitment to fund approximately $360,000 in support of the GASB's project on reporting performance measures. A total of $136,000 of Sloan funds were recognized as contribution revenues during 2000. The public accounting profession and state governments both contributed the same amounts as in 1999, $595,000 and

Contributions	*FASB*		*GASB*		*Total*	
(dollars in thousands)	**2000**	1999	**2000**	1999	**2000**	1999
Gross contributions	**$6,314**	$6,368	**$2,296**	$2,193	**$8,610**	$8,561
Sales value of subscriptions provided to contributors	**(1,511)**	(1,537)	**–**	–	**(1,511)**	(1,537)
Net contributions	**$4,803**	$4,831	**$2,296**	$2,193	**$7,099**	$7,024

$1,000,000, respectively. Securities, insurance and investor organizations and other supporters contributed approximately $221,000 in 2000, a decrease of $36,000 from 1999. The Government Finance Officers Association contribution decreased $129,000 to $64,000, reflecting an adjustment related to previous periods applied by this supporter in 2000. In addition to the above, the new fund-raising program launched in 2000 resulted in $268,000 of Foundation contributions being allocated to the GASB.

Subscription and Publication Sales

Total subscription and publication sales increased $957,000 or 6.3% in 2000, while direct costs of publications increased $86,000, or 4.3%.

FASB subscription and publication sales increased $294,000 in 2000. Revenues derived from electronic licensing and royalty arrangements increased by approximately $395,000, reflecting increases in the number of users under existing agreements. Sales of Statements, Interpretations and Technical Bulletins increased by approximately $185,000, reflecting an increase in the number of documents issued. In addition, sales of the *Original Pronouncements, Current Text* and other annual bound volumes increased by approximately $155,000. Sales derived from FASB's basic, comprehensive and loose-leaf subscription services, however, declined by approximately $268,000, or 4.2%, in 2000. Sales of research and special reports, along with revenues derived from seminars and other miscellaneous sources, were approximately $118,000 lower in 2000.

The direct costs of $1,703,000 to produce and distribute FASB publications were $61,000 lower in 2000 than they were in 1999.

GASB subscription and publication sales increased $663,000, or 48%, in 2000. Sales of Statements, Special Reports and other final documents increased by about $378,000. Many of these sales were for publications related to the release of the standards on the new reporting model for governmental entities in 1999, as well as additional sales of the standards themselves. GASB revenues in 2000 were further aided by $153,000 of increased sales from the *Codification* and *Original Pronouncements* bound books. Revenues from electronic licensing and royalty agreements increased by approximately $89,000. Direct costs of $370,000 to produce and distribute GASB publications increased $147,000 from 1999, resulting primarily from higher printing and distribution costs for documents associated with the standards on the reporting model.

Investment Income

Cash Equivalents and Short-Term Investments

Investment income from cash equivalents and short-term investments increased $35,000 in 2000, primarily the effect of a general increase in the interest rate yields available for these funds.

Reserve Fund Investments

The reserve fund was established at the end of 1981 to ensure continuation of operations in the event of unforeseen contingencies or a prolonged business downturn. The fund is also intended to provide for major capital expenditures. Reserve fund assets are unrestricted but require Board of Trustee approval for use in continuing operations.

Reserve fund investments are maintained within the guidelines of the investment policy established by the Foundation's Finance Committee. As of December 31, 2000, approximately 67% of the fund's portfolio was invested in an equity index fund, with the balance invested in a fixed income index fund. Investment losses of $228,000 for 2000, after investment management fees of $61,000, reduced the reserve fund balance to $27,267,000 at December 31, 2000. As a result of continued weakness in financial market performance into 2001, the reserve fund experienced additional investment losses of $937,000 over the first two months of the new year. Accordingly, the reserve fund balance at February 28, 2001 was $26,330,000.

Statements of Activities

Years Ended December 31 (dollars in thousands)	2000	1999
Operating revenues:		
Net contributions:		
FASB	$ 4,803	$ 4,831
GASB	2,296	2,193
	7,099	7,024
Subscription and publication sales:		
FASB	14,013	13,719
GASB	2,038	1,375
	16,051	15,094
Less – Direct costs of sales:		
FASB	1,703	1,764
GASB	370	223
	2,073	1,987
Net subscription and publication sales	13,978	13,107
Net operating revenues	21,077	20,131
Program expenses:		
Salaries and wages:		
FASB	9,225	8,583
GASB	2,222	2,223
Administrative	1,337	1,256
Total salaries and wages	12,784	12,062
Employee benefits (Note 3)	1,750	1,972
Occupancy and equipment expenses (Note 5)	1,018	1,034
Other operating expenses	1,642	1,521
Total program expenses	17,194	16,589
Support expenses:		
Salaries and wages	1,609	1,523
Employee benefits (Note 3)	406	396
Occupancy and equipment expenses (Note 5)	762	752
Depreciation and amortization	503	525
Other operating expenses	1,520	1,405
Total support expenses	4,800	4,601
Total expenses	21,994	21,190
Operating revenues less than expenses	(917)	(1,059)
Short-term investment income (Note 2)	242	207
Reserve fund investment (losses) income (Note 2)	(228)	3,103
(Decrease) increase in unrestricted net assets	(903)	2,251
Net assets at beginning of year	29,715	27,464
Net assets at end of year	$28,812	$29,715

See notes to financial statements.

As of December 31 (dollars in thousands)	**2000**	1999
Current assets:		
Cash and cash equivalents	**$ 1,624**	$ 1,822
Short-term investments (Note 2)	**2,713**	3,336
Contributions receivable	**1,895**	1,088
Subscription, publication and other receivables, net of allowance for doubtful accounts of $65,000 and $46,000	**1,194**	1,496
Inventories	**220**	218
Prepaid expenses and other current assets	**131**	177
Total current assets	**7,777**	8,137
Noncurrent assets:		
Prepaid pension costs (Note 3)	**1,250**	691
Furniture, equipment and leasehold improvements, at cost net of accumulated depreciation and amortization (Note 4)	**1,029**	1,346
Reserve fund investments (Note 2)	**27,267**	27,495
Total noncurrent assets	**29,546**	29,532
Total assets	**$37,323**	$37,669
Current liabilities:		
Accounts payable and other current liabilities	**$ 630**	$ 613
Accrued payroll and related benefits	**457**	411
Unearned publication and other deferred revenues	**4,246**	3,727
Total current liabilities	**5,333**	4,751
Noncurrent liabilities:		
Accrued postretirement health care costs (Note 3)	**1,570**	1,523
Accrued rent expense (Note 5)	**1,608**	1,680
Total noncurrent liabilities	**3,178**	3,203
Total liabilities	**8,511**	7,954
Net assets – unrestricted	**$28,812**	$ 29,715

See notes to financial statements.

Years Ended December 31 (dollars in thousands)		**2000**		1999
Cash flows from operating activities:				
Cash received from contributors	**$ 7,646**		$ 8,829	
Cash received from publication sales	**15,361**		13,603	
Interest and dividend income received	**1,164**		897	
Cash paid to suppliers and employees	**(23,944)**		(22,890)	
Net cash provided by operating activities		**227**		439
Cash flows from investing activities:				
Proceeds from sales or maturities of reserve fund investments	**$11,061**		$ 4,507	
Purchases of reserve fund investments	**(11,929)**		(5,126)	
Proceeds from maturities of short-term investments	**2,800**		12,794	
Purchases of short-term investments	**(2,171)**		(12,903)	
Purchases of furniture, equipment and leasehold improvements	**(186)**		(457)	
Net cash used in investing activities		**(425)**		(1,185)
Net decrease in cash and cash equivalents		**(198)**		(746)
Cash and cash equivalents at beginning of period		**1,822**		2,568
Cash and cash equivalents at end of period		**$1,624**		$1,822
Reconciliation of change in net assets to net cash provided by operating activities:				
(Decrease) increase in unrestricted net assets		**$ (903)**		$ 2,251
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization	**503**		525	
Unrealized losses (gains) on reserve fund investments	**1,229**		(1,663)	
Gain on sale of reserve fund investments	**(139)**		(828)	
Provision for losses on accounts receivable	**22**		5	
(Increase) decrease in contribution, subscription, publication and other receivables	**(527)**		576	
(Increase) decrease in inventories	**(2)**		119	
Increase in prepaid expenses and pension costs	**(513)**		(317)	
Increase (decrease) in accounts payable, accrued expenses and postretirement benefits	**110**		(170)	
Increase in unearned publication and other deferred revenues	**519**		12	
Decrease in accrued rent expense	**(72)**		(71)	
Total adjustments		**1,130**		(1,812)
Net cash provided by operating activities		**$ 227**		$ 439

See notes to financial statements.

1 Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities
The Financial Accounting Foundation, organized in 1972, is an independent, private-sector organization. The Foundation's Board of Trustees is responsible for overseeing, funding and appointing members of the following Boards and Councils:
• The Financial Accounting Standards Board, which establishes standards of financial accounting and reporting for private-sector entities, and the Financial Accounting Standards Advisory Council.
• The Governmental Accounting Standards Board, which establishes standards of financial accounting and reporting for state and local governmental entities, and the Governmental Accounting Standards Advisory Council.

The Foundation is incorporated under the 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. The Foundation obtains its funding from contributions and publication sales.

Accounting Policies
A summary of the Foundation's significant accounting policies follows.

Presentation
The financial statements have been prepared in accordance with generally accepted accounting principles and are presented in accordance with FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. The statements of activities are based on the concept that standard setting is the single program of the Foundation. Such statements set forth separately, where appropriate, revenues and certain program expenses of the Standards Boards, giving recognition to their separate responsibilities as described in the Foundation's Certificate of Incorporation and By-Laws. Program expenses include salaries, benefits and other operating expenses for the Board members and research staffs, and expenses for the publications, distribution, production and marketing departments and for the library. Assistance services of the Foundation, including public relations, finance, human resources, office management, computer systems, fund-raising and general administration are reflected as support expenses in the accompanying statements of activities. Fund-raising expenses totaled $283,000 in 2000 and $124,000 in 1999.

The preparation of financial statements requires management to make estimates and assumptions that may affect the reported amounts of 1) assets and liabilities at the date of such statements and 2) revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Contributions
The Foundation reports all contributions as an increase in unrestricted net assets, as certain donor-imposed restrictions on contributions received in 2000 and 1999 were met within the year of receipt. Gross contributions to the FASB are reduced by the sales value of complimentary subscriptions provided to certain contributors, which are recorded as subscription and publication sales.

A large number of people have contributed significant amounts of time to the activities of the Foundation, the Standards Boards and the Advisory Councils without compensation. These individuals include certain members of the Foundation's Board of Trustees and members of the following: FASAC and GASAC, the FASB's Emerging Issues Task Force and various FASB and GASB task forces on technical projects. Many others contribute to the Standards Boards' processes by sending comment letters, appearing at public hearings and participating in field tests. Members of the Board of Trustees are eligible for compensation, with the understanding that individual Trustees may waive their right to be compensated. The financial statements reflect the value of contributed services, principally waived Trustee compensation, that meet the recognition criteria of FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made.* The value of contributed services recognized in the statements of activities was $158,000 and $280,000 in 2000 and 1999, respectively.

In December 1997, the GASB received a conditional commitment to contribute approximately $360,000 over a three-year period, beginning in March 1998, to fund activities leading to the possible issuance of a standard requiring reporting of performance measures by state and local governments. Conditional promises to contribute are recognized as revenues when the conditions on which they depend are substantially met. Accordingly, 2000 and 1999 contributions include approximately $136,000 and $137,000, respectively, relating to this conditional commitment.

Subscription Plans, Loose-Leaf Services and License Agreements
Revenues from these sources are deferred and recognized over the life of the applicable subscription, loose-leaf service or license period. Ongoing costs of fulfillment and producing updates are charged to expense when incurred.

Cash and Cash Equivalents
For financial statement purposes, the Foundation 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 instruments approximates fair value due to the relatively short period to maturity.

Investments
The Foundation's investments are reported at fair value, with values determined using net asset amounts as reported by the custodian. See Note 2 for further information regarding investments.

Inventories
Publications and certain other items for resale are included in inventories and carried at the lower of cost or market, with cost determined by the first-in, first-out method.

Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements are stated at cost, less accumulated depreciation and amortization computed under the straight-line method. Furniture and equipment are depreciated over their estimated useful lives. Leasehold improvements are amortized over the shorter of their estimated useful lives or the remaining term of the office lease.

2 Investments and Investment Income (Losses)

Investments are as follows:

At December 31	2000	1999
Short-term:		
Investment company mutual funds	$ 2,713,000	$ 3,336,000
Reserve fund:		
Common trust funds:		
Equity index fund	$18,224,000	$16,044,000
Fixed income index fund	8,928,000	11,349,000
Money market fund and other securities	115,000	102,000
	$27,267,000	$27,495,000

Investment income (losses) consist of the following:

Year ended December 31	2000	1999
Short-term:		
Interest, including return on cash equivalents	$ 234,000	$ 201,000
Net unrealized gains and losses	8,000	6,000
Total short-term	$ 242,000	$ 207,000
Reserve fund:		
Interest and dividends	$ 923,000	$ 681,000
Net realized and unrealized gains and (losses)	(1,090,000)	2,491,000
	(167,000)	3,172,000
Less: advisory fees	(61,000)	(69,000)
Total reserve fund	$ (228,000)	$ 3,103,000

Reserve fund assets are maintained within the investment policy established by the Foundation's Finance Committee and are unrestricted, but require Board of Trustee approval for use in operations.

3 Employee Benefits

Employee benefits expense consists principally of payroll taxes, health care benefits for active and retired employees, and pension costs. The following amounts were charged (credited) to operations under the Foundation's pension plans and postretirement health care plan for the periods presented:

Year ended December 31	2000	1999
Defined contribution pension expense	$1,024,000	$954,000
Defined benefit pension income	(560,000)	(258,000)
Postretirement health care expense	161,000	143,000
	$ 625,000	$839,000

The principal actuarial assumptions used for 2000 and 1999 to determine costs and benefit obligations for the defined benefit pension plans and the postretirement health care plan are shown below (not all assumptions are applicable to all plans):

At December 31	2000	1999
Discount rate	7.25%	7.5%
Rate of increase in compensation levels	5.0%	5.0%
Long-term rate of return on assets	9.0%	9.0%
Health care cost trend rate	8.5%	8.5%

The health care cost trend rate declines gradually to an ultimate level of 5% after 2006.

Pension Plans

The Foundation sponsors defined contribution and defined benefit pension plans for its employees. Contributions under the defined contribution plan are based on the employees' current earnings. The increase in defined contribution pension expense is due primarily to higher salaries in 2000. The defined benefit plans are designed to supplement the pension benefit provided by the defined contribution plan only if the employee's targeted pension benefit is deemed not to have been met. The targeted pension benefit for an employee is an annual benefit equal to 2% of that employee's highest five-year average salary, multiplied by the years of credited service, not to exceed 20 years. Employees do not contribute to the plans and pension benefits under the plans vest after five years of service.

The components of net periodic pension income for the defined benefit pension plans in 2000 and 1999 were as follows:

Year ended December 31	**2000**	1999
Service cost	**$ 34,000**	$ 95,000
Interest cost	**416,000**	439,000
Expected return on plan assets	**(784,000)**	(699,000)
Amortization of prior period unrecognized net gains	**(234,000)**	(64,000)
Amortization of prior service cost	**8,000**	8,000
Amortization of transition net asset	**–**	(37,000)
Defined benefit pension income	**$ (560,000)**	$ (258,000)

The change in plan assets, change in benefit obligation, funded status and reconciliation to amounts recognized in the statements of financial position are as follows:

	2000	1999
Change in plan assets		
Fair value of plan assets, beginning of year	**$8,829,000**	$7,890,000
Actual return on plan assets	**(227,000)**	1,173,000
Benefits paid	**(218,000)**	(234,000)
Fair value of plan assets, end of year	**8,384,000**	8,829,000
Change in benefit obligation		
Projected benefit obligation, beginning of year	**5,665,000**	6,637,000
Service cost	**34,000**	95,000
Interest cost	**416,000**	439,000
Actuarial losses (gains)	**1,182,000**	(1,232,000)
Benefits paid	**(218,000)**	(274,000)
Projected benefit obligation, end of year	**7,079,000**	5,665,000
Funded status of plans	**1,305,000**	3,164,000
Unrecognized net gains	**(12,000)**	(2,439,000)
Unrecognized negative prior service cost	**(43,000)**	(34,000)
Prepaid pension cost	**$1,250,000**	$ 691,000

The projected benefit obligation and accumulated benefit obligation for one of the plans above, which is unfunded, were $642,000 and $245,000, respectively, as of December 31, 2000, and $583,000 and $201,000, respectively, as of December 31, 1999. No benefits were paid under the unfunded plan during 2000. Benefits paid under the unfunded plan aggregated approximately $40,000 in 1999.

The transition net asset represents the remaining balance of the cumulative effect of adopting FASB Statement No. 87 in 1985, which was recognized by reducing pension expense ratably over 15 years ending in 1999. Gains and losses subsequent to December 31, 1984 that occur from changes in actuarial assumptions and because actual experience differs from that assumed are amortized over a ten-year period. The decrease in the discount rate as of December 31, 2000 contributed toward the actuarial losses. Prior service cost from plan amendments is being recognized over the employees' remaining service periods.

Health Care Plan

The Foundation sponsors a postretirement health care plan for all employees. Employees retiring after attaining age 55 with at least 10 years of service receive a one-time opportunity to elect continued coverage under the health care plan then in effect for active employees. The cost of continued coverage is then shared between the Foundation and the retiree, with the Foundation paying the premium up to the amount the Foundation paid for that employee's coverage immediately prior to retirement. Premium increases for any reason are borne by the retiree. Decreases in premiums for any reason, including Medicare integration at age 65, would reduce retiree cost first, then the Foundation's cost.

The components of net periodic postretirement health care expense for 2000 and 1999 were as follows:

Year ended December 31	**2000**	1999
Service cost	**$ 55,000**	$ 66,000
Interest cost	**118,000**	96,000
Amortization of losses	**22,000**	35,000
Amortization of negative prior service cost	**(34,000)**	(54,000)
Net periodic postretirement health care expense	**$161,000**	$143,000

The change in benefit obligation, funded status and reconciliation to amounts recognized in the statements of financial position are as follows:

	2000	1999
Change in benefit obligation		
Accumulated benefit obligation, beginning of year	$ 1,624,000	$ 1,465,000
Service cost	55,000	66,000
Interest cost	118,000	96,000
Actuarial losses	251,000	106,000
Benefits paid	(115,000)	(109,000)
Accumulated benefit obligation, end of year	1,933,000	1,624,000
Funded status of plan	(1,933,000)	(1,624,000)
Unrecognized net losses	451,000	222,000
Unrecognized negative prior service cost	(88,000)	(121,000)
Accrued postretirement health care cost	$(1,570,000)	$(1,523,000)

The Foundation funds retiree health care benefits on a cash basis. Gains and losses that occur because actual experience differs from that assumed, and from changes in actuarial assumptions, are amortized over 10 years. The increase in the accumulated value of unrecognized net losses during 2000 is caused by the decrease in the discount rate and by premium increases greater than the assumed trend. The change in the unrecognized negative prior service cost reflects the impact of plan amendments and revisions in the measurement of benefit obligations for certain retirees. A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Increase (decrease) in total amount of service and interest cost components	$16,000	$(14,000)
Increase (decrease) in accumulated postretirement benefit obligation	112,000	(101,000)

4 Furniture, Equipment and Leasehold Improvements

At December 31	2000	1999
Furniture and equipment	$4,255,000	$4,087,000
Leasehold improvements	2,288,000	2,270,000
	6,543,000	6,357,000
Accumulated depreciation and amortization	(5,514,000)	(5,011,000)
	$1,029,000	$1,346,000

5 Lease Commitments

The Foundation occupies office space under an operating lease. Total rental expense for such office space and equipment was $1,567,000 and $1,574,000 in 2000 and 1999, respectively. The operating lease for the Foundation's office space commenced April 15, 1988 and expires on September 30, 2006. Accrued rent expense for escalating minimum lease payments and rent abatement amounted to $1,608,000 and $1,680,000 at December 31, 2000 and 1999, respectively, and is included in noncurrent liabilities in the accompanying statements of financial position. This accrued expense is being amortized over the life of the operating lease.

Future minimum payments under the operating lease for office space, including the Foundation's pro rata share of operating expenses and real estate taxes, are summarized as follows:

Year ended December 31	
2001	$ 1,691,000
2002	1,866,000
2003	1,866,000
2004	1,866,000
2005	1,866,000
2006	1,399,000
Total minimum lease payments	$10,554,000

Report of Management

The management of the Financial Accounting Foundation is responsible for the preparation of the accompanying financial statements. These financial statements have been prepared in accordance with generally accepted accounting principles. Management maintains internal controls designed to ensure the integrity and objectivity of the financial reporting process.

The Trustees of the Foundation, through the Audit Committee, oversee 1) financial and accounting policies, practices and reports, 2) the system of accounting and internal controls and the competence of persons performing functions within that system and 3) the scope and results of independent audits and any comments on the adequacy of internal controls and quality of financial reporting. The independent auditors render an objective, independent opinion on management's financial statements, and have direct access to the Audit Committee with and without the presence of management.

In response to the recommendations of the Blue Ribbon Committee Report on Improving the Effectiveness of Corporate Audit Committees, and the related Securities and Exchange Commission regulations, the Audit Committee of the Foundation has recently adopted a formal charter to govern its operations. The charter identifies the key functions, objectives, operating practices, membership requirements and duties and responsibilities of the Committee. The charter is available through the office of the Executive Vice President.

The Trustees also have adopted and monitor personnel policies designed to ensure that employees of the Foundation are free of conflicts of interest.

Manuel H. Johnson, *Chairman and President*
Financial Accounting Foundation

Joseph S. LaGambina, *Executive Vice President*
Financial Accounting Foundation

Independent Auditor's Report

Board of Trustees
Financial Accounting Foundation

We have audited the accompanying statements of financial position of the Financial Accounting Foundation as of December 31, 2000 and 1999, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Financial Accounting Foundation as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

McGladrey & Pullen, LLP

New Haven, Connecticut
February 9, 2001

Financial Accounting Foundation

Financial Accounting
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www.fasb.org

Governmental Accounting
Standards Board
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