FINANCIAL ACCOUNTING FOUNDATION

Financial Statements for the Years Ended

December 31, 2019 and 2018

FINANCIAL ACCOUNTING FOUNDATION

Financial Statements

for the Years Ended December 31, 2019 and 2018

Statements of Activities for the Years Ended December 31, 2019 and 2018

(Dollars in thousands)	**2019**	2018
Operating:		
Revenues:		
Accounting support fees:		
FASB	**$ 29,294**	$ 29,081
GASB	**8,936**	8,346
Total accounting support fees	**38,230**	37,427
Publishing (Note 2)	**18,678**	18,120
Contributions—FAF contributed services	**130**	184
Total revenues	**57,038**	55,731
Program expenses (Note 4):		
Standard setting:		
FASB	**29,178**	28,600
GASB	**8,165**	7,912
Total standard setting	**37,343**	36,512
Publishing	**6,130**	4,592
Total program expenses	**43,473**	41,104
Support expenses (Note 4)	**12,935**	11,455
Total program and support expenses	**56,408**	52,559
Operating revenues greater than operating expenses	**630**	3,172
Nonoperating:		
Net investment income - short term investments (Note 5)	**155**	150
Net investment income - Reserve Fund (Note 5)	**2,343**	777
Other components of net periodic pension cost (Note 6)	**(330)**	(756)
Other pension-related changes not reflected in operating expenses (Note 6)	**496**	909
Change in net assets without donor restrictions	**3,294**	4,252
Net assets at beginning of year	**70,129**	65,877
Net assets at end of year	**$ 73,423**	$ 70,129

See accompanying notes to these financial statements.

FINANCIAL ACCOUNTING FOUNDATION

Statements of Financial Position as of December 31, 2019 and 2018

(Dollars in thousands)	**2019**	2018
Current Assets:		
Cash and cash equivalents	**$ 4,605**	$ 4,107
Short-term investments (Note 5)	**9,250**	9,114
Accounting support fees, publishing, and other receivables (net of allowance for doubtful accounts of $56 and $72)	**6,273**	5,806
Prepaid expenses and all other current assets	**1,278**	958
Total current assets	**21,406**	19,985
Noncurrent Assets:		
Reserve Fund investments (Note 5)	**60,925**	61,082
Assets held in trust (Note 6)	**2,517**	1,896
Operating lease right-of-use assets (note 8)	**2,994**	4,060
Furniture, equipment, software, and leasehold improvements, net (Note 7)	**3,824**	2,032
Total noncurrent assets	**70,260**	69,070
Total assets	**$ 91,666**	$ 89,055
Current Liabilities:		
Accounts payable and accrued expenses	**$ 1,656**	$ 1,491
Accrued payroll and related benefits	**1,066**	1,461
Operating lease liabilities—current (Note 8)	**1,657**	1,700
Unearned publication and other deferred revenues	**6,766**	6,630
Total current liabilities	**11,145**	11,282
Noncurrent Liabilities:		
Accrued pension costs (Note 6)	**646**	652
Accrued postretirement health care costs (Note 6)	**1,138**	758
Operating lease liabilities—long term (Note 8)	**2,797**	4,338
Other liabilities (Note 6)	**2,517**	1,896
Total noncurrent liabilities	**7,098**	7,644
Total liabilities	**18,243**	18,926
Net Assets—without Donor Restrictions		
Designated by the Board for Reserve (Notes 3 and 5)	**60,925**	61,082
Undesignated	**12,498**	9,047
Total net assets without donor restrictions	**73,423**	70,129
Total liabilities and net assets	**$ 91,666**	$ 89,055

See accompanying notes to these financial statements.

FINANCIAL ACCOUNTING FOUNDATION

Statements of Cash Flows for the Years Ended December 31, 2019 and 2018

(Dollars in thousands)	**2019**	2018
Cash flows from operating activities:		
Cash received from accounting support fees	**$ 37,877**	$ 37,369
Cash received from publishing sales	**18,700**	17,772
Interest and dividend income received	**1,675**	1,436
Cash paid to vendors, employees, and benefit plans	**(55,495)**	(52,422)
Net cash provided by operating activities	**2,757**	4,155
Cash flows from investing activities:		
Proceeds from sales of Reserve Fund investments	**4,000**	3,000
Purchases of Reserve Fund investments	**(3,019)**	(7,156)
Proceeds from sales of short-term investments	**8,000**	9,000
Purchases of short-term investments	**(8,136)**	(8,853)
Purchases of assets held in trust	**(621)**	(194)
Purchases of furniture, equipment, software, and leasehold improvements, net	**(2,483)**	(609)
Net cash used in investing activities	**(2,259)**	(4,812)
Net increase (decrease) in cash and equivalents	**498**	(657)
Cash and equivalents at beginning of year	**4,107**	4,764
Cash and equivalents at end of year	**$ 4,605**	$ 4,107
Supplemental Information		
Noncash items included in the Statements of Activities:		
Pension-related changes not reflected in operating expenses	**$ 496**	$ 909
Component of net periodic pension costs not reflected in operating expenses	**$ (330)**	$ (756)

See accompanying notes to these financial statements.

Notes to Financial Statements
December 31, 2019 and 2018

1. Nature of Activities and Summary of Significant Accounting Policies

Activities

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

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

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

Summary of Significant Accounting Policies

Presentation

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

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

All of the net assets of the FAF are classified as without donor restrictions and are segregated into FAF Board of Trustee (FAF Board) designated and undesignated categories (see Note 2).

Use of Estimates

The preparation of financial statements requires management to formulate estimates and assumptions that may affect the reported amounts of assets and liabilities at the dates of those statements and revenues and expenses for the reporting periods. Significant estimates made by management include actuarially determined employee benefit liabilities. Actual results could differ from those estimates.

Revenue Recognition

Publishing

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

The FAF assesses the obligations promised in its contracts with customers and identifies a performance obligation for each promise to transfer goods or services. To identify the performance obligations, the FAF considers all the promises in the contract, whether explicitly stated or implied, based on customary business practices. Revenue is recognized when a performance obligation is satisfied by transferring control of promised goods or services to customers, which can occur over time or at a point in time.

All of the FAF's contracts with customers, including sales- or usage-based royalty agreements, include performance obligations that are short-term in nature.

Sales taxes collected on behalf of third parties are excluded from revenue and recorded as a liability until paid. Shipping fees charged to customers are excluded from revenue and netted against shipping expenses. There are no obligations for warranties, returns, or refunds to customers.

Accounting Support Fees

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

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

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

The Office of Management and Budget (OMB) has determined that the FASB is subject to sequestration pursuant to the Budget Control Act of 2011 (BCA). Sequestration amounts are determined on the federal government's fiscal year, which for the 2019 sequestration began on October 1, 2018 and ended on September 30, 2019. During 2019, $1,820,000 was sequestered with respect to the FASB accounting support fees. The OMB notified the FAF that the 2019 sequestered funds were available for spending for the 2020 federal fiscal year, which began October 1, 2019, and as a result no restrictions existed at December 31, 2019. The FAF understands that the FASB accounting support fees for federal fiscal year 2020 will be subject to sequestration in a similar manner.

Contributions

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

Cash and Cash Equivalents

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

Investments

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

Concentration of Credit Risk

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

Accounting Support Fees, Publishing, and Other Receivables

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

Employee Benefit Plans

The FAF sponsors a postretirement health care plan and a defined benefit pension plan. Information with respect to the funded positions of each of the FAF's pension and other postretirement plans at December 31, 2019 and 2018, is set forth in Note 6.

Furniture, Equipment, Software, and Leasehold Improvements

Furniture, equipment, software, and leasehold improvements are reported in the statements of financial position at cost, less accumulated depreciation and amortization determined using the straight-line method. Furniture, equipment, and software are depreciated over their estimated useful lives, ranging from 3 to 10 years. Leasehold improvements are amortized over periods not extending beyond the termination dates of the leases for office space.

Income Taxes

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

Leases

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

Subsequent Events

The FAF has evaluated subsequent events through March 4, 2020, the date through which the financial statements are available to be issued, and determined that no events subsequent to year-end have occurred that require adjustment to, or disclosure in, the financial statements.

2. Publishing

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

Year Ended December 31	**2019**			2018		
	FASB	**GASB**	**Total**	FASB	GASB	Total
Licensing	**$ 14,819**	**$ 1,221**	**$ 16,040**	$ 14,184	$ 1,193	$ 15,377
Online subscriptions	**1,721**	**97**	**1,818**	1,730	97	1,827
Print subscriptions	**220**	**307**	**527**	256	340	596
Hard copy and other	**214**	**79**	**293**	232	88	320
Total	**$ 16,974**	**$ 1,704**	**$ 18,678**	$ 16,402	$ 1,718	$ 18,120

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

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

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

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

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

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

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

3. Liquidity and Availability of Financial Assets

The primary source of funding for the FAF, FASB, and GASB general expenditures are FASB and GASB accounting support fees and publishing revenues. FASB accounting support fees are billed annually and GASB accounting support fees are billed quarterly. Together, these fees accounted for $38.2 million or 67 percent, and $37.4 million or 67 percent, of the funding of the FAF in 2019 and 2018, respectively. The following table reflects the financial assets as of December 31, 2019 and 2018, reduced by the amounts that are not available to meet general expenditures within one year of the statements of financial position because of FAF Board designations (dollars in thousands):

At December 31	**2019**	2018
Cash and cash equivalents	**$ 4,605**	$ 4,107
Investments (short-term and Reserve Fund)	**70,175**	70,196
Accounting support fees, publishing, and other receivables	**6,273**	5,806
Financial assets available before Board designations	**81,053**	80,109
Less: Board designated Reserve Fund	**60,925**	61,082
Financial assets available to meet cash needs for general expenditures within one year	**$ 20,128**	$ 19,027

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

4. Program and Support Expenses

The following table presents expenses by both their nature and functions for the years ended December 31, 2019 and 2018 (dollars in thousands):

	Program						
	Standard Setting						
	FASB	GASB	Total	Publishing	Total Program	Support	Total Expenses
Year Ended December 31, 2019							
Salaries and wages	**$ 19,347**	**$ 5,471**	**$ 24,818**	**$ 1,617**	**$ 26,435**	**$ 4,658**	**$ 31,093**
Employee benefits	**4,882**	**1,241**	**6,123**	**448**	**6,571**	**1,338**	**7,909**
Occupancy and equipment expenses	**1,085**	**304**	**1,389**	**144**	**1,533**	**754**	**2,287**
Depreciation and amortization	**421**	**9**	**430**	**50**	**480**	**211**	**691**
Information technology fees	**956**	**165**	**1,121**	**3,536**	**4,657**	**322**	**4,979**
Professional fees—other	**1,246**	**539**	**1,785**	**3**	**1,788**	**3,952**	**5,740**
Printing and shipping	**-**	**-**	**-**	**245**	**245**	**-**	**245**
Other operating expenses	**1,241**	**436**	**1,677**	**87**	**1,764**	**1,700**	**3,464**
Total operating program and support expenses	**29,178**	**8,165**	**37,343**	**6,130**	**43,473**	**12,935**	**56,408**
Net periodic benefit costs other than service cost	**170**	**58**	**228**	**-**	**228**	**102**	**330**
Total expenses	**$ 29,348**	**$ 8,223**	**$ 37,571**	**$ 6,130**	**$ 43,701**	**$ 13,037**	**$ 56,738**
Year Ended December 31, 2018							
Salaries and wages	$ 19,247	$ 5,367	$ 24,614	$ 1,588	$ 26,202	$ 4,671	$ 30,873
Employee benefits	4,750	1,255	6,005	439	6,444	1,513	7,957
Occupancy and equipment expenses	1,118	314	1,432	202	1,634	741	2,375
Depreciation and amortization	404	24	428	51	479	215	694
Information technology fees	801	160	961	1,881	2,842	268	3,110
Professional fees—other	922	351	1,273	1	1,274	2,479	3,753
Printing and shipping	-	-	-	315	315	-	315
Other operating expenses	1,358	441	1,799	115	1,914	1,568	3,482
Total operating program and support expenses	28,600	7,912	36,512	4,592	41,104	11,455	52,559
Net periodic benefit costs other than service cost	336	218	554	-	554	202	756
Total expenses	$ 28,936	$ 8,130	$ 37,066	$ 4,592	$ 41,658	$ 11,657	$ 53,315

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

5. Investments and Investment Income and Losses

Investments

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

At December 31	**2019**	2018
Short-term:		
Money market mutual fund	**$ 9,250**	$ 9,114
Reserve Fund:		
Fixed income mutual fund	**$ 30,430**	$ 30,528
Money market mutual fund	**30,495**	30,554
	$ 60,925	$ 61,082

Net investment income
(Dollars in thousands)

Years Ended December 31	**2019**	2018
Short-term:		
Interest and dividends	**$ 155**	$ 150
Reserve Fund:		
Interest and dividends	**$ 1,519**	$ 1,286
Net realized and unrealized gains (losses)	**824**	(509)
Total Reserve Fund investment income	**$ 2,343**	$ 777

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

Years Ended December 31	**2019**	2018
Fund balance, beginning of year	**$ 61,082**	$ 57,435
Transfers (to) from operations, net	**(2,500)**	2,870
Investment income	**2,343**	777
Fund balance, end of year	**$ 60,925**	$ 61,082

6. Employee Benefits

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

Pension Plans

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

In 2018, the Employees' Pension Plan paid out $1,826,000 in lump sums, which triggered settlement accounting. This resulted in recognition of $646,000 of periodic benefit expense in 2018 for amounts previously deferred and recognized as pension-related changes not reflected in operating expenses. There was no settlement accounting triggered in 2019.

The FAF maintains a 457(b) deferred compensation plan (457(b) Plan) to provide the ability to make tax-deferred contributions to employees whose annual base compensation exceeds the maximum compensation limit for qualified plan contributions under Code §401(a)(17). Contributions are made into a rabbi trust maintained by the FAF for each participating employee and remain assets of the FAF until distributed to the participant upon termination of their employment. The 457(b) Plan assets and related liabilities of $2,517,000 and $1,896,000 as of December 31, 2019 and 2018, respectively, are included as assets held in trust and other liabilities in the statements of financial position.

Employee benefits expense arising from the defined contribution plans was $2,971,000 and $2,791,000 for 2019 and 2018, respectively. Employer contributions to the plan are based on the employee's earnings level, with incremental increases based on the employee's age, and vest after 1.5 years of service.

Postretirement Health Coverage Plan

The FAF sponsors a postretirement health coverage plan (Postretirement Plan) for all eligible retirees of the FAF with benefits varying based on retirement age and years of service. Effective January 1, 2014, the Postretirement Plan was amended to limit the level of benefits that will be paid to current employees and new hires. Retiree benefits are limited for new hires after December 31, 2013, to the lesser of (1) the year-end 2013 calculated benefit amounts or (2) the calculated benefits offered during the year of retirement. Employees hired before January 1, 2014, are eligible for retiree benefits limited to the lesser of (1) health plan costs at 2013 calculated benefit amounts subject to a cap on potential annual increases not to exceed five percent per year or (2) calculated benefits offered during the year of retirement. Benefits for participants who were retired as of December 31, 2013, are not affected by these amendments. Effective January 1, 2020, the Postretirement Plan was closed to all new hires. The FAF funds retiree health care benefits through a Grantor Trust.

Assumptions

The principal actuarial assumptions used to determine periodic benefit costs and year-end benefit obligations for the Employees' Pension Plan and Postretirement Plan are as follows:

	Employees' Pension Plan		Postretirement Plan	
	2019	2018	**2019**	2018
Net periodic expense assumptions:				
Discount rate	**4.00%**	3.40%	**4.15%**	3.50%
Expected return on plan assets	**4.40%**	4.00%	**6.55%**	6.20%
Benefit obligation assumption:				
Discount rate	**2.95%**	4.00%	**3.10%**	4.15%

According to the provisions in the Postretirement Plan, benefit amounts for active participants as of December 31, 2013, have been assumed to increase 5.0 percent per year after 2013. No increases are assumed for active participants hired after 2013.

The expected long-term rates of return on plan assets assumptions were based upon a review of historical returns, and expectations and capabilities of future market performance.

In addition to assumptions in the above table, assumed mortality is also a key assumption in determining benefit obligations. The assumed mortality rates reflect the Society of Actuaries (SOA) published mortality table. At December 31, 2019, the assumed mortality rates were updated to reflect the SOA's new mortality base table (Pri-2012) and MP-2019 projection scale. At December 31, 2018, the assumed mortality rates reflect the MP-2018 projection scales using the RP-2006 base table.

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

	Employees' Pension Plan		Postretirement Plan	
	2019	2018	**2019**	2018
Change in benefit obligations:				
Benefit obligation, beginning of year	**$ 23,819**	$ 27,301	**$ 16,012**	$ 17,263
Service cost	**-**	-	**533**	681
Interest cost	**901**	894	**655**	596
Actuarial losses (gains)	**2,623**	(1,443)	**2,188**	(2,072)
Benefits paid	**(1,821)**	(1,107)	**(567)**	(577)
Settlements	**-**	(1,826)	**-**	-
Retiree contributions	**-**	-	**86**	114
Medicare Part D reimbursement	**-**	-	**6**	7
Benefit obligation, end of year	**$ 25,522**	$ 23,819	**$ 18,913**	$ 16,012
Change in plan assets:				
Fair value of plan assets, beginning of year	**$ 23,167**	$ 26,178	**$ 15,254**	$ 16,511
Employer contributions, net of Medicare Part D reimbursements of $6 and $7 in 2019 and 2018	**-**	800	**-**	200
Retiree contributions	**-**	-	**86**	113
Actual investment income (loss) on plan assets	**3,530**	(878)	**3,002**	(993)
Benefits paid	**(1,821)**	(1,107)	**(567)**	(577)
Settlements	**-**	(1,826)	**-**	-
Fair value of plan assets, end of year	**24,876**	23,167	**17,775**	15,254
Funded status at end of year	**$ (646)**	$ (652)	**$ (1,138)**	$ (758)
Amounts recognized in financial statements:				
Noncurrent liabilities	**(646)**	(652)	**(1,138)**	(758)
	$ (646)	$ (652)	**$ (1,138)**	$ (758)
Amounts recognized as pension-related changes not reflected as operating expenses:				
Net actuarial losses (gains)	**$ 55**	$ 450	**$ 170**	$ (34)
Amortization of net actuarial losses	**(493)**	(1,105)	**(322)**	(359)
Amortization of net prior service costs	**-**	45	**94**	94
	$ (438)	$ (610)	**$ (58)**	$ (299)
Amounts not yet recognized as components of net periodic benefit costs:				
Net actuarial losses	**$ 7,984**	$ 8,423	**$ 3,080**	$ 3,233
Net prior service credits	**-**	-	**(411)**	(507)
	$ 7,984	$ 8,423	**$ 2,669**	$ 2,726
Amounts expected to be recognized during the years ended December 31, 2020 and 2019:				
Amortization of net actuarial losses	**$ 493**	$ 493	**$ 319**	$ 322
Amortization of net prior service credits	**-**	-	**(95)**	(95)
	$ 493	$ 493	**$ 224**	$ 227

Plan Assets

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

The asset allocation for the Employees' Pension Plan, which is consistent with the target allocation established by the Committee, was 100 percent in fixed income investments as of December 31, 2019, and is based upon the funded status of the plan, valuation of the liability, and the returns and risks relative to the liability. The asset allocation policy for the Postretirement Plan reflects the target allocation of 50 percent in equity investments (which includes 50 percent of the equity holdings for international stocks) and 50 percent in fixed income investments.

The plan assets of the Employees' Pension Plan and Postretirement Plan were invested in mutual funds at December 31, 2019 and 2018, the majority of which were indexed. The following table presents the fair value of major categories of plan assets, all of which are measured using Level 1 inputs, as defined (dollars in thousands):

	Employees' Pension Plan		**Postretirement Plan**	
Fair Value of Plan Assets at December 31	**2019**	2018	**2019**	2018
Mutual funds (all Level 1):				
U.S. equity funds (a)	**$ -**	$ -	**$ 4,634**	$ 3,786
International equity index fund (b)	**-**	-	**4,329**	3,563
Fixed income funds (c)	**24,781**	23,078	**8,808**	7,905
Cash held by investment manager	**95**	89	**4**	-
Total	**$ 24,876**	$ 23,167	**$ 17,775**	$ 15,254

Descriptions of Funds:

(a) These funds invest in small-, mid-, and large-cap companies from diversified industries using a blend of growth and value strategies, and index sampling.

(b) This fund is passively managed and seeks to track the performance of international composite indexes. It has broad exposure across developed and emerging non-U.S. equity markets. Approximately 50% is invested in European companies.

(c) These funds are passively managed using index sampling and consist of intermediate-term and long-term mutual funds.

Net Periodic Benefit Expense

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

	Employees' Pension Plan		Postretirement Plan	
	2019	2018	**2019**	2018
Service cost	**$ -**	$ -	**$ 533**	$ 681
Interest cost	**901**	894	**655**	596
Expected return on plan assets	**(962)**	(1,014)	**(984)**	(1,044)
Amortization of prior period actuarial losses	**493**	459	**322**	359
Amortization of prior service credits	**-**	(45)	**(94)**	(94)
Net periodic benefit expense	**432**	294	**432**	498
Settlements	**-**	646	-	-
Benefit cost	**$ 432**	$ 940	**$ 432**	$ 498

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

The following benefit payments, which reflect expected future service, are projected to be paid under the FAF's benefit plans (dollars in thousands):

Year Ended December 31	Employees' Pension Plan	Postretirement Plan
2020	$ 2,715	$ 497
2021	1,915	564
2022	2,083	627
2023	1,777	684
2024	1,857	731
2025–2029	7,741	4,405

The FAF does not expect to contribute to the Employees' Pension Plan or Postretirement Plan during 2020.

7. Furniture, Equipment, Software, and Leasehold Improvements

(Dollars in thousands)

Years Ended December 31	**2019**	2018
Furniture and equipment	**$ 9,115**	$ 9,158
Leasehold improvements	**5,652**	5,647
Software - work in process	**2,070**	-
	16,837	14,805
Accumulated depreciation and amortization	**(13,013)**	(12,773)
	$ 3,824	$ 2,032

Software - work in process includes costs associated with developing a new publishing platform.

8. Leases

The FAF has operating leases for office space in Norwalk (main office) and Washington, D.C. and for equipment. The leases have remaining lease terms of one year to less than four years. The Norwalk office space lease includes nonlease components for operating expenses and are accounted for separately and expensed as incurred. Operating right-of-use assets are adjusted for the balance of deferred lease expense and incentives in the amount of $1,460,000 and $1,978,000 at December 31, 2019 and 2018, respectively. Total rental expense for operating leases amounted to $1,250,000 and $1,249,000 in 2019 and 2018, respectively. The rent expense liability is being amortized over the remaining term of the applicable operating lease. Cash paid for amounts of operating leases included in operating cash flows amounted to $1,770,000 and $1,356,000 in 2019 and 2018, respectively. Balances related to operating leases in the statements of financial position, include the following (dollars in thousands):

At December 31	**2019**	2018
Operating lease right-of-use assets	**$ 2,994**	$ 4,060
Operating lease liabilities—current	**1,657**	1,700
Operating lease liabilities—long term	**2,797**	4,338
Total lease liabilities	**$ 4,454**	$ 6,038

The weighted average remaining lease term is 2.8 years and 3.7 years in 2019 and 2018, respectively, and the weighted-average discount rate is 2.4 percent in both 2019 and 2018.

Operating lease maturities (dollars in thousands):

Year Ended December 31	Undiscounted	Discounted
2020	$ 1,756	$ 1,657
2021	1,744	1,606
2022	1,317	1,187
2023	4	4
Total operating lease maturities	$ 4,821	$ 4,454

RSM

Independent Auditor's Report

RSM US LLP

To the Board of Trustees
Financial Accounting Foundation
Norwalk, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the Financial Accounting Foundation (FAF), which comprise the statements of financial position as of December 31, 2019 and 2018, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the FAF as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

New Haven, Connecticut
March 4, 2020