



FINANCIAL
ACCOUNTING
FOUNDATION

BUILDING A BETTER GAAP

2014 Annual Report

2014 ANNUAL REPORT

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BUILDING A BETTER GAAP THE BLUEPRINT

The Financial Accounting Foundation (FAF) and its standard-setting Boards—the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB)—spent much of 2014 developing a new Strategic Plan that will serve as a blueprint for how the three groups will work together in the next few years to improve Generally Accepted Accounting Principles, or GAAP.

GAAP financial reports communicate key information about the financial position and operation of companies (both public and private), not-for-profit organizations, and state and local governments. These financial reports enable investors, lenders, and other creditors to make better-informed decisions about where and how they allocate their capital—and make it possible for citizens and taxpayers to evaluate the financial performance of their governments.

The new Strategic Plan will guide the FASB, the GASB, the FAF Board of Trustees, and the FAF management team—according to their specific roles—as they work to achieve their principal objective of developing the highest-quality financial accounting standards. In short, this blueprint will help the FAF, the FASB, and the GASB build a better GAAP.



The Financial Accounting Foundation (FAF)—through its Board of Trustees and its management team—in 2014 focused on supporting the work of its standard-setting Boards, the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB), as they worked to improve Generally Accepted Accounting Principles (GAAP).

The FAF conducted a broad-based organizational design review, appointed new Trustees, reappointed a GASB member, collaborated with the FASB and the GASB on the 2015 Strategic Plan, and initiated a three-year review of the Private Company Council (PCC). All of these initiatives were undertaken to support the work of the FASB and the GASB in improving GAAP.

The organizational design review was intended to ensure that the FAF has the right systems, processes, policies, and structure in place to appropriately and effectively support the FASB and the GASB in achieving their mission. That assessment identified opportunities for improvement in four main categories: people, process, technology, and organization.

In the area of “people”—and to facilitate these recommended improvements—the FAF welcomed Mary Crotty to the newly-created role of Chief Operating Officer. Mary joined us in November with an extensive background in corporate operations and governance.

Also in November, the FAF reinstated the role of GASB vice chair, in part because of our strategic focus on expanding outreach to stakeholders. GASB member Jan Sylvis, retired chief of accounts for the state of Tennessee, was appointed to the new role. David E. Sundstrom was reappointed to a second term on the GASB.

In mid-2014, the FAF Trustees welcomed Gary Bruebaker, chief investment officer for the Washington State Investment Board in Olympia, Washington. Joining the Trustees in

early 2015 were Myra Drucker, who serves as an independent director and chairs the Risk and Audit Committee of Grantham, Mayo, Van Otterloo & Co. LLC, and John Veihmeyer, who is Global Chairman of KPMG and Chairman and CEO of KPMG in the U.S. Completing their service in 2014 were Trustees Jack Brennan, Teri List-Stoll, Ed Nusbaum, and Luis Viceira.

Following a year-long effort by the leadership and senior staff of the FAF, the FASB, and the GASB, the organization in April 2015 issued our Strategic Plan, a planning “blueprint” for the next few years. The initial draft plan, issued in December, generated many thoughtful comments. Those perspectives helped shape the final plan, which is described in the following pages of this report.

In late 2014, members of the Trustees’ Private Company Review Committee conducted initial outreach prior to launching, in early 2015, the three-year PCC review. Our February 2015 Request for Comment invites stakeholders to weigh in on the PCC’s effectiveness, accomplishments, and its future role in setting standards for private companies. With the departure at the end of 2015 of PCC Chairman Billy Atkinson, who successfully led the Council during its first three years, along with several other charter PCC members, the FAF is seeking new private company stakeholders to serve on the Council.

On behalf of the FAF Board of Trustees and management team, we thank you for your continued support for and participation in the independent standard-setting process. Together, we will continue to work to build a better GAAP.

Jeffrey J. Diermeier
Chairman
Financial Accounting Foundation

Teresa S. Polley
President and CEO
Financial Accounting Foundation
April 2015



For more than 40 years, the Financial Accounting Standards Board (FASB) has dedicated itself to improving Generally Accepted Accounting Principles (GAAP), the standards that govern how companies—both public and private—and not-for-profit organizations report their finances. That mission was reaffirmed in the 2015 Strategic Plan issued in April.

In 2014, we worked to build a better GAAP by improving revenue recognition, revising our agenda to focus on reducing complexity, and strengthening our relationships with other standard setters around the world. At the same time, we looked ahead to identify the major accounting issues that we will address next.

The FASB in May 2014 issued milestone guidance to improve how companies and other organizations recognize revenue in contracts with customers. To ensure a smooth transition to the new standard, the FASB and the International Accounting Standards Board (IASB) established the Revenue Recognition Transition Resource Group (TRG) to alert the Boards to implementation issues that may arise among companies and other organizations.

Thanks in part to the TRG’s input, the FASB is considering improvements to the implementation guidance for licenses of intellectual property, and to the guidance for performance obligations. We also have exposed for public comment a proposal to defer the standard’s effective date to ensure that companies and organizations can make the necessary changes in their reporting systems.

The FASB also addressed stakeholder concerns about unnecessary complexity in accounting, refocusing our agenda with a mix of new projects intended to address this issue on various fronts. They include foundational projects that focus on long-term standard-setting goals; broad projects that address recognition and measurement, and presentation and disclosure; and short-term projects targeting immediate areas of improvement.

We made significant progress on broad projects such as leases and financial instruments, as well as on foundational projects addressing the Conceptual Framework and the Disclosure

Framework. We also initiated a number of short-term simplification projects covering issues ranging from measurement of inventory to presentation of debt issuance costs.

Our work with the Private Company Council (PCC) to simplify and increase the relevance of financial reporting for private companies led to a broader review of how we can simplify standards for all companies and organizations. For example, a PCC consensus—and later, final FASB standard—to simplify goodwill impairment for private companies led to an agenda project to consider extending these improvements to public companies and not-for-profit organizations.

Increasing comparability across international borders remained a priority. We continued to collaborate with the IASB and more formally engaged with national standard setters from North America, Europe, and Asia to pursue our objective of working with others to develop financial accounting standards that have the fewest possible differences across different jurisdictions.

Finalizing our major projects on financial instruments and leases—and ensuring a smooth transition to the ensuing new guidance—will be a priority through 2015 and early 2016.

The FASB also will look at what other comprehensive projects should be added to its future agenda. Late in the year, we will issue a Discussion Paper asking all stakeholders to weigh in on what these projects should be.

Building a better GAAP is a collaborative work in progress. Your input helped us improve the revenue recognition standard and identify and address areas of unnecessary complexity in GAAP. It also helped shape our approach to creating more comparable global accounting standards. By continuing to share your views, you help ensure we address the right issues.

Russell G. Golden
Chairman
Financial Accounting Standards Board
April 2015



In 2014, the GASB celebrated our 30th anniversary. Former and current Board members and staff gathered at a dinner to reflect on the past, but more importantly, consider the challenges of the future. Our foremost challenge is to continue to improve financial accounting standards—Generally Accepted Accounting Principles, or GAAP—for state and local governments.

Our mission to build a better GAAP for governments is more relevant than ever. During 2014, we worked to improve financial accounting and reporting by addressing issues related to retiree healthcare benefits, fair value reporting, the disclosure of tax abatement agreements, and governmental business-type activities.

We conducted research and outreach on our financial reporting model. We also broadened our efforts to engage in a dialogue with stakeholders, while educating those stakeholders about changes that will result from the implementation of our new pension standards.

During the year, the GASB issued proposed guidance on other postemployment benefits that mirror the advances recently achieved for pensions—including displaying the net liability in the financial statements. Improving this area of state and local government financial reporting will allow financial statement users to better gauge a government’s current financial position and the costs associated with these benefits.

In 2014, the GASB issued a proposal that would result in a broader application of fair value reporting for investments. A final Statement on this topic was finalized early in 2015.

The Board also issued a proposal to require governments to disclose information about their tax abatement agreements. While many governments have such agreements in place, information regarding the impact of these agreements is not currently provided in the financial statements.

The Board also focused on a number of issues (for example, asset retirement obligations) associated with governmental business-type activities. These efforts are expected to result in three proposed Statements in 2015.

The Board continued to collect stakeholder input for its pre-agenda research on a potential re-examination of the financial reporting model. The input will help the Board evaluate the model’s overall effectiveness—and whether the Board should add an agenda project to improve it.

Since issuing new pension guidance in 2012, the Board has actively engaged in educating stakeholders about the new standards. To further those efforts, the GASB continued to participate in presentations around the country, provide assistance on technical inquiries, issue implementation guidance, and develop website resources. In addition, the GASB worked with key stakeholder organizations to establish the Pension Communication Resource Group.

Since joining the Board, I have made it a priority to broaden and strengthen the Board’s stakeholder relationships. We are encouraged by the progress that we have made in working with organizations that could have an important voice in our process. This approach is enabling us to achieve a better understanding from a wider perspective—and opens the door for enhanced feedback throughout the standard-setting process.

The momentum of 2014 will help us complete the important work we began while addressing the challenges to come. I look forward to working with the GASB’s new vice chair, Jan Sylvis, in addressing those challenges.

On behalf of the Board, I would like to express my thanks to all of the stakeholders who participated in the GASB’s due process and other outreach efforts. Your contributions to our process are vital to building a better GAAP.

David A. Vaudt
Chairman
Governmental Accounting Standards Board
April 2015

FAF HIGHLIGHTS

FAF, FASB, GASB Develop 2015 Strategic Plan

The FAF, the FASB, and the GASB in 2014 initiate a process that leads to the release earlier this year of the 2015 Strategic Plan. The goal: to establish clearly articulated, easily understood statements of the vision, mission, and top priorities of the FAF, the FASB, and the GASB individually and collectively, while affirming the principal objective of developing the highest-quality financial accounting standards. FAF President and CEO Terri Polley calls the draft plan “an opportunity to initiate a dialogue about our vision, not only internally, but also with our stakeholders, and then craft a high-level planning document to guide us as we move forward in the months and years ahead.”

Based on stakeholder feedback on the draft plan, which was posted in December 2014, the final plan is issued on April 9, 2015.

FAF Begins Three-Year Review of the Private Company Council

The FAF Board of Trustees in 2014 begins its three-year review of the Private Company Council (PCC). The goal is to determine whether the PCC is meeting its primary responsibilities and mission, provide an assessment of the PCC’s continuing role and effectiveness, and address changes that might be made to its processes. The Trustees identify possible improvements to the PCC based on initial informal feedback, and issue a draft assessment for public comment on February 26, 2015.

FAF Completes Three Post-Implementation Reviews

As part of the Trustees’ ongoing efforts to evaluate the effectiveness of the standard-setting process, the FAF continues its post-implementation reviews (PIRs) of FASB and GASB standards to assess whether they are meeting their objectives. The FAF in 2014 issues PIR findings in reports for three standards. FASB Statement No. 157, *Fair Value Measurements*—which establishes a framework for measuring fair value within GAAP—is found to generally achieve its purpose. FASB Statement No. 123(R), *Share-Based Payment*—which addresses companies’ share-based payment transactions—is found to achieve its purpose and provide useful information to users of financial statements. And GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*—which addresses the impairment of capital assets and insurance recoveries—is found to resolve some but not all of the issues underlying its purpose.

FAF Adds New Leadership to Its Management Team, Appoints New Trustees

Following completion of a broad-based organizational design review, the FAF in 2014 creates the new role of Chief Operating Officer to manage the Foundation’s business operations, including technology, finance, publications, and other key activities. Mary P. Crotty, a former Bank of America executive with an extensive background in corporate operations and governance, joins the FAF in that role in November.

In June, Washington State Investment Officer Gary H. Bruebaker joins the FAF Board of Trustees, filling a role left vacant by the retirement of former FAF Chairman and Vanguard Chairman Emeritus John J. Brennan. In December, Myra R. Drucker and John Veihmeyer are named as new Trustees to replace Luis M. Viceira and Edward E. Nusbaum, whose terms concluded on January 14, 2015. Ms. Drucker is an independent director with Grantham, Mayo, Van Otterloo & Co. LLC. Mr. Veihmeyer is Global Chairman of KPMG and Chairman and CEO of KPMG in the U.S. Ann Marie Petach, a member of the BlackRock Institutional Trust Company board and secretary and treasurer of the FAF Board of Trustees, is reappointed to a second term. Also, Trustee Teri L. List-Stoll completes her service in December 2014. A replacement will be named in 2015.

“The FAF, the FASB, and the GASB must continuously earn the right to our status as the independent standard-setting organizations for the United States. We strive to do this by demonstrating our competence, our willingness to listen and learn, and—in the case of the FASB and the GASB—our ability to produce standards that reflect economic information fairly and in the most cost-efficient manner possible. We do not take this privilege you’ve entrusted to us for granted.

FAF President and CEO
Terri Polley

FASB HIGHLIGHTS

FASB Issues Final Revenue Recognition Standard and Creates Transition Resource Group

The FASB and the International Accounting Standards Board (IASB) on May 28, 2014 issue converged guidance on recognizing revenue in contracts with customers. Accounting Standards Update No. 2014-09—*Revenue from Contracts with Customers (Topic 606)* eliminates a major source of inconsistency in GAAP, replacing many disparate, industry-specific instances of revenue recognition guidance with one principles-based standard. FASB Chairman Russ Golden calls the standard “a milestone in our efforts to improve and converge one of the most important areas of financial reporting.”

Shortly thereafter, the FASB and the IASB announce the members of the new joint Revenue Recognition Transition Resource Group, tasked with informing the Boards of potential implementation issues that could arise when companies and organizations implement the new standard.

FASB Continues Efforts on International Cooperation

The FASB in 2014 continues to collaborate and cooperate with the IASB and national standard-setters with the goal of adopting accounting standards that have the fewest possible differences.

The FASB continues to actively participate in the IASB’s Accounting Standards Advisory Forum (ASAF). In addition, the FASB strengthens its existing relationships with other standard setters to promote a broader flow of information and ideas that mutually informs each other’s thinking and contributes to an environment that will foster greater comparability.

FASB Issues Four Accounting Alternatives

Based on Private Company Council (PCC) consensuses, the FASB issues four alternatives that simplify GAAP for private companies. These alternatives address hedge accounting, the application of variable interest entity (VIE) guidance, and the measurement of certain customer-related intangible assets and non-competition agreements in a business arrangement. A fourth alternative that allows for the amortization of goodwill and simplifies the goodwill impairment test prompts the FASB to add a project to its agenda that would simplify this area of financial reporting for public companies and not-for-profits as well as private companies.

FASB Launches New Communication Tools for Stakeholders

The FASB launches a new quarterly e-newsletter, the *FASB Outlook*, which presents current accounting and financial reporting issues in a “plain-English” format. It also debuts a new user-friendly technical agenda format.

The FASB Taxonomy staff continues to educate stakeholders on the use of XBRL, presenting a March 2014 webcast on structured data in financial reporting that features FASB Member Hal Schroeder and Kimberly Earle of the U.S. Securities and Exchange Commission.

FASB members and staff deliver more than 100 speeches and presentations to various stakeholder groups, covering topics that include the FASB’s agenda reprioritization, simplification initiative, and cost-benefit considerations in the standard setting process.

FASB Issues Guidance to Improve Financial Reporting of Discontinued Operations, Repurchase Agreements, and Going Concern Uncertainties

April 2014: FASB Accounting Standards Update No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, changes the criteria for reporting discontinued operations while enhancing disclosures in this area, eliminating sources of inconsistency in GAAP.

June 2014: FASB Accounting Standards Update No. 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*, changes the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. It also requires enhanced disclosures about repurchase agreements and other similar transactions.

August 2014: FASB Accounting Standards Update No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*, defines management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures.

FASB Resets Its Agenda to Address Complexity

The FASB reassesses its priorities to address the financial reporting issues of greatest importance to stakeholders. The focus of much of this effort is to reduce complexity in accounting and financial reporting. To that end, the Board adds to its technical agenda a mix of new projects intended to address complexity on various fronts. They include foundational projects that focus on long-term standard-setting goals; broad projects that address recognition and measurement, and presentation and disclosure; and short-term projects targeting immediate areas of improvement.

The FASB also launches a tightly-focused simplification initiative to make narrow-scope improvements to accounting standards through a series of short-term projects—without compromising the usefulness of information reported to investors. Projects added to the agenda include simplifying the measurement of inventory, presentation of debt issuance costs, measurement date of defined benefit pension plan assets, cloud computing fees, and accounting for income taxes.

GASB HIGHLIGHTS

GASB Proposes Revised Guidance on Retiree Health Care Benefits

The GASB in June 2014 issues two proposed Statements on other postemployment benefits (OPEB). The proposed Statements, which primarily address health care benefits, are intended to provide a more complete picture of the liabilities associated with non-pension retiree benefits that governments have promised to employees and how much those promises are expected to cost.

Mirroring modifications to the GASB's 2012 pension standards, the proposed standards call for the placement of the OPEB liability on the face of the financial statement and will provide enhanced note disclosures, including more comprehensive information about the benefits provided.

The final Statements are scheduled to be released in June 2015.

GASB Proposes Revised Guidance on Fair Value Reporting

In May 2014, the GASB issues a proposed Statement on fair value. This Exposure Draft proposes both measurement and application guidance.

The measurement guidance proposes valuation techniques and approaches and a hierarchy of inputs to valuation techniques used to measure fair value. The application guidance will result in a wider range of investments being reported at fair value in a government's financial statements and enhance note disclosures related to fair value measurements.

A final Statement on fair value is issued in February 2015.

GASB Educates Stakeholders on New Pension Standard Requirements

The GASB in 2014 conducts extensive outreach to auditors, preparers, and financial statement users to educate them about the changes and benefits associated with the GASB's 2012 pension standards.

In the first half of 2014, the GASB issues an implementation guide for governments which, taken with the guide for pension plans issued in 2013, answers questions and provides examples for those who will be implementing the new standards. The level of importance associated with implementation guides in the GAAP hierarchy is addressed in a separate project. A final Statement on the hierarchy is expected to be issued in June 2015.

The Board and staff throughout the year conduct outreach and educational activities and provide additional assistance—presentations, videos, articles, and tool kits—to aid preparers, auditors, and financial statement users in understanding the pension Statements. The GASB also assembles the Pension Communication Resource Group (PCRG) to promote a better understanding of the changes. The PCRG, which comprises a cross-section of strategically selected GASB stakeholder organizations, develops communication tools to help governments answer the questions they likely will receive from elected officials, citizens, bond analysts, and the news media.

GASB Conducts Research on Potential Re-examination of Financial Reporting Model

Building on its 2013 pre-agenda research, including a series of roundtables, the GASB staff in 2014 conducts surveys for auditors, preparers, and financial statement users on a potential re-examination of the financial reporting model for state and local governments. The review and analysis of the results from these surveys provide the basis for dozens of subsequent interviews across all three stakeholder groups.

The Board will use the input received to develop a comprehensive assessment of the model's effectiveness in practice, usefulness, understandability, and cost/benefits. The Board is expected to consider adding a project on the financial reporting model to its current agenda in 2015.

“As we begin to move into the second generation of the GASB, we find a world that is more immediate, more fragmented, more specialized, and more challenging than any of us might have previously envisioned. We will undoubtedly be challenged to write standards that tackle emerging issues and new transactions in an ever-changing landscape.

GASB Chairman
Dave Vaudt

FINAL STANDARDS

- Accounting Standards Update No. 2014-06**
Technical Corrections and Improvements Related to Glossary Terms [March 2014]
- Accounting Standards Update No. 2014-08**
Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity [April 2014]
- Accounting Standards Update No. 2014-09**
Revenue from Contracts with Customers (Topic 606) [May 2014]
- Accounting Standards Update No. 2014-10**
Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation [June 2014]
- Accounting Standards Update No. 2014-11**
Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures [June 2014]
- Accounting Standards Update No. 2014-15**
Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern [August 2014]

FINAL STANDARDS RESULTING FROM PRIVATE COMPANY COUNCIL (PCC) CONSENSUSES

- Accounting Standards Update No. 2014-02**
Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill (a consensus of the Private Company Council) [January 2014]
- Accounting Standards Update No. 2014-03**
Derivatives and Hedging (Topic 815): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach (a consensus of the Private Company Council) [January 2014]
- Accounting Standards Update No. 2014-07**
Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements (a consensus of the Private Company Council) [March 2014]
- Accounting Standards Update No. 2014-18**
Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination (a consensus of the Private Company Council) [December 2014]

FINAL STANDARDS RESULTING FROM EMERGING ISSUES TASK FORCE (EITF) CONSENSUSES

- Accounting Standards Update No. 2014-01**
Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force) [January 2014]
- Accounting Standards Update No. 2014-04**
Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force) [January 2014]
- Accounting Standards Update No. 2014-05**
Service Concession Arrangements (Topic 853) (a consensus of the FASB Emerging Issues Task Force) [January 2014]
- Accounting Standards Update No. 2014-12**
Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force) [June 2014]
- Accounting Standards Update No. 2014-13**
Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity (a consensus of the FASB Emerging Issues Task Force) [August 2014]
- Accounting Standards Update No. 2014-14**
Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force) [August 2014]
- Accounting Standards Update No. 2014-16**
Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity (a consensus of the FASB Emerging Issues Task Force) [November 2014]
- Accounting Standards Update No. 2014-17**
Business Combinations (Topic 805): Pushdown Accounting (a consensus of the FASB Emerging Issues Task Force) [November 2014]

EXPOSURE DRAFTS

- Exposure Draft**
Fair Value Measurement and Application [Approved by the Board: May 15, 2014]
- Exposure Draft**
Accounting and Financial Reporting for Pensions and Financial Reporting for Pension Plans That Are Not Administered through Trusts That Meet Specified Criteria, and Amendments to Certain Provisions of GASB Statements 67 and 68 [Approved by the Board: May 28, 2014]
- Exposure Draft**
Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans [Approved by the Board: May 28, 2014]
- Exposure Draft**
Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions [Approved by the Board: May 28, 2014]
- Exposure Draft**
Tax Abatement Disclosures [Approved by the Board: October 20, 2014]

CONCEPTS STATEMENTS

- Concepts Statement No. 6**
Measurement of Elements of Financial Statements [Issued March 2014]

PRELIMINARY VIEWS

- Preliminary Views**
Financial Reporting for Fiduciary Responsibilities [Approved by the Board: November 11, 2014]
- Preliminary Views**
Leases [Approved by the Board: November 11, 2014]

The FAF, the FASB, and the GASB, working jointly, have developed this strategic plan—or blueprint—to articulate the long-range **vision**, **mission**, and **strategic goals** of each of the groups and the organization collectively.



Our collective VISION

is to be a recognized leader in financial accounting and reporting.

The key to our vision is that the FASB, the GASB, the FAF Trustees, and the FAF Management will be **best-in-class** in their respective roles.

Our collective MISSION

is to establish and improve financial accounting and reporting standards to provide useful information to investors and other users of financial information and educate stakeholders on how to most effectively understand and implement those standards.

The FASB and the GASB set the highest-quality standards through a process that is robust, comprehensive, and inclusive. The FAF Trustees provide oversight and promote an independent and effective standard-setting process.

1 STRATEGIC GOAL

Practicing and promoting continued excellence in standard setting

We will maintain and improve an effective and efficient standard-setting process.

We will attract, develop and retain a high-quality and diverse workforce.

We will educate and explain to stakeholders the benefits of GAAP financial statements and the critical importance of an independent standard-setting process.

We will develop a technology strategy to meet the organization's future needs and priorities.



1. (l. to r.) FASB Chairman Russ Golden, FAF President & CEO Terri Polley, & GASB Chairman Dave Vautt; 2. FASB Member Larry Smith; 3. PCC Members Diane Rubin and Larry Weinstock; 4. (l. to r.) FASB Members Daryl Buck and Hal Schroeder; 5. FAF Secretary & Treasurer Ann Marie Petach; 6. FASB Member Marc Siegel

7. (l. to r.) FASB Member Tom Linsmeier and PCC Member Neville Grusd; 8. FAF Chairman Jeff Diermeier; 9. FAF Trustees Ann Spruill and John Veihmeyer; 10. FASB Assistant Director Peter Proestakes; 11. FASB Assistant Project Manager Aarika Friend; 12. FASB Project Manager Lauren Mottley and FASB Postgraduate Technical Assistant Jordan Isom

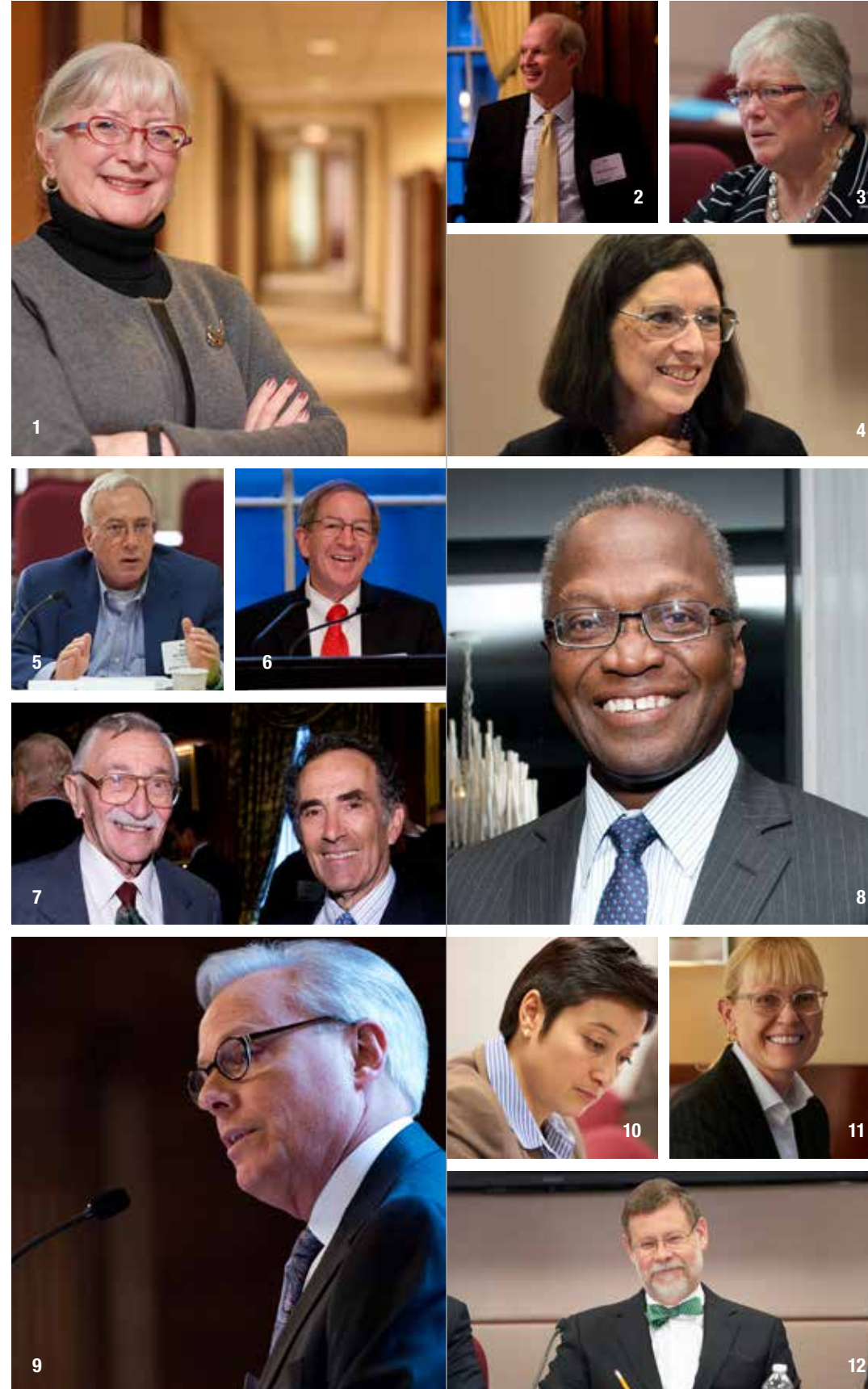
2 STRATEGIC GOAL

Demonstrating a commitment to leadership in standard setting

The FASB and the GASB will create the highest-quality accounting standards through a process that reflects our core values. That will result in their work being recognized, respected and emulated by others around the world. FASB and GASB standards will be recognized as a premier set of high-quality accounting standards. We will lead by example.

3 STRATEGIC GOAL Building and maintaining trust with stakeholders

Collectively and individually, the FASB, the GASB, and the FAF management team will build trusted relationships with and seek to maintain and develop support from a broad range of our stakeholders, who play a critically important role in helping to maintain the independence of the standard-setting process.



1. GASB Vice Chair Jan Sylvis; 2. GASB Senior Technical Advisor Ken Schermann; 3. GASB Member Marcia Taylor; 4. FAF Trustee Myra Drucker; 5. GASAC Vice Chair Jim Reardon; 6. FAF Trustee Dan Ebersole; 7. (l. to r.) Former GASB Vice Chair Martin Ives and GASB Member Michael Granof

8. FAF Vice Chairman John Davidson; 9. GASB Chairman Dave Vaudt; 10. GASB Project Manager Paulina Haro-Camm; 11. GASB Executive Administrative Assistant Mary Milligan; 12. GASB Director Dave Bean

4 STRATEGIC GOAL Promoting public discourse on current and future financial reporting issues

The FASB and the GASB, as well as the FAF organization as a whole, will establish themselves as influential thinkers—or “thought leaders”—to help shape and lead the discussion of important issues involving financial accounting and reporting and the financial accounting profession.

FAF BOARD OF TRUSTEES



Mr. Jeffrey J. Diermeier
Chairman
FAF Board of Trustees
Retired President & Chief Executive Officer
CFA Institute



Mr. Carol Anthony (John) Davidson
Vice Chairman
FAF Board of Trustees
Retired Senior Vice President, Controller & Chief Accounting Officer
Tyco International



Ms. Ann Marie Petach
Secretary & Treasurer
FAF Board of Trustees
Former Senior Managing Director
BlackRock Solutions



Mr. Gary H. Bruebaker*
Chief Investment Officer
Washington State Investment Board



Mr. Paul G. Camell
Retired Executive Vice President & Chief Accounting Officer
CDM Smith Inc.



Mr. Charles S. Cox
Managing Director of Finance & Administration
City of Farmers Branch, Texas



Ms. Myra R. Drucker**
Independent Director
Grantham, Mayo, Van Otterloo & Co.



Mr. John C. Dugan
Partner
Covington & Burling LLP



Mr. W. Daniel Ebersole
Retired State Treasurer
State of Georgia



Mr. Stephen R. Howe, Jr.
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Completed service in 2014

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Completed service in 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

2014 Summary

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

The FAF is responsible for the oversight, administration, and finances of the FASB and the GASB, and their respective advisory councils, the Financial Accounting Standards Advisory Council (FASAC), and the Governmental Accounting Standards Advisory Council (GASAC). The FAF obtains its funding from three sources:

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

The FAF's net assets decreased by \$9.7 million in 2014, primarily resulting from the following:

- Total program and support expenses exceeded total net operating revenues by \$5.3 million. Program and support expenses are funded by accounting support fees and by a portion of Reserve Funds, as described more fully below under the heading Statements of Financial Position Reserve Fund Investments. In 2014, the FAF was able to significantly reduce accounting support fees with \$18.7 million of amounts made available from Reserve Fund balances. This funding from Reserve Funds (which are not operating revenues) resulted in the difference between net operating revenues and total program and support expenses. This difference was anticipated during preparation of the 2014 budget.

- The nonoperating decrease of \$5.4 million for pension-related changes was due to increased benefit obligations under the FAF's postretirement health coverage plan (Postretirement Plan) and the Employees' Pension Plan (due to changes in assumptions for mortality rates and discount rates).

The FAF's expenses include program expenses, which are those directly related to its sole program of standard setting, and support expenses, which are those related to the general administration and operation of standard-setting activities. Program and support expenses increased by \$3.2 million, or approximately 7%, from 2013 to 2014. 2014 program expenses include a non-recurring contribution of \$3.0 million to the International Financial Reporting Standards Foundation (IFRS Foundation). The contribution was made to support the efforts of the IFRS Foundation's standard-setting body, the International Accounting Standards Board (IASB) to complete work on four joint accounting standards projects under way with the FASB. The 2014 program expenses related to the FAF's primary mission of improving financial accounting and reporting standards. These efforts included promoting the improvement and increased comparability of international accounting standards, simplifying GAAP, and working with the Private Company Council (PCC) to improve the standard-setting process for private companies. Program activities also included the continued development of the GAAP Financial Reporting Taxonomy (Taxonomy) for eXtensible Business Reporting Language (XBRL) and the evaluation of the effectiveness of the standard-setting process for both the FASB and the GASB through the post-implementation review (PIR) process.

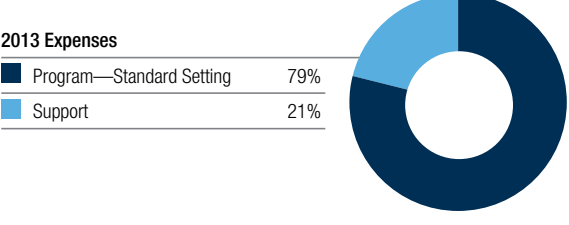
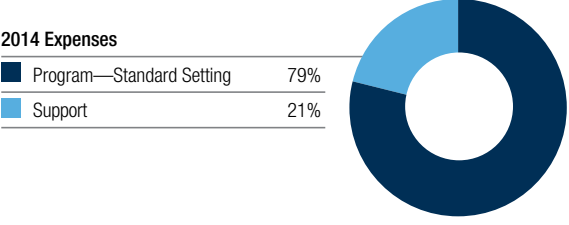
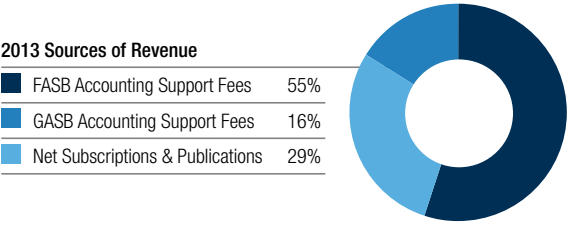
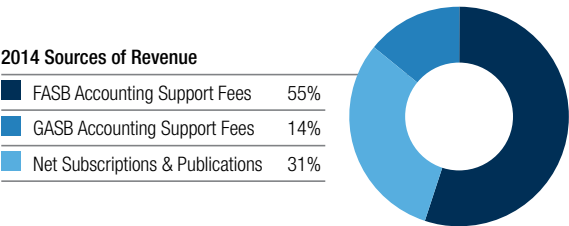
Financial Results

The FAF's financial statements are presented in accordance with GAAP and reflect the specific reporting requirements of not-for-profit organizations. The following is a discussion of the highlights of the activities and financial position of the FAF as presented in the accompanying audited financial statements.

MANAGEMENT’S DISCUSSION AND ANALYSIS

Statements of Activities

The following charts display the sources of revenues and program and support expenses for 2014 and 2013:



FASB Accounting Support Fees

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

Equity issuers and investment company issuers are assessed a share of the accounting support fees based upon their relative average monthly market capitalization, subject to minimum capitalization thresholds. The FAF has retained the Public Company Accounting Oversight Board (PCAOB) as its agent for invoicing and

collecting FASB accounting support fees. FASB accounting support fees were \$24.0 million in 2014 and \$25.5 million in 2013. The FAF paid the PCAOB approximately \$209,000 per year for collection services in 2014 and 2013.

The Office of Management and Budget (OMB) has determined that the FASB accounting support fee is subject to sequestration pursuant to the Budget Control Act of 2011. Sequestration amounts are based on the federal government’s fiscal year, which, for the 2014 sequestration, began on October 1, 2013, and ended on September 30, 2014. During 2014, the FAF sequestered approximately \$1.7 million with respect to the FASB accounting support fee. In November 2014, the OMB notified the FAF that the 2014 sequestered funds were available for spending for the 2015 federal fiscal year, which began October 1, 2014. The FAF understands that the FASB accounting support fee for federal fiscal year 2015 will be subject to sequestration in a similar manner.

GASB Accounting Support Fees

Pursuant to the Dodd-Frank Act, in 2012, the SEC issued an order approving a proposed rule change to the by-laws of the Financial Industry Regulatory Authority (FINRA) to establish an accounting support fee to fund the annual budget of the GASB, including rules and procedures to provide for the equitable allocation, assessment, and collection of the GASB accounting support fee from FINRA members. FINRA collects the GASB accounting support fee quarterly from member firms that report trades to the Municipal Securities Rulemaking Board (MSRB). Each member firm’s assessment is based on the member firm’s portion of the total par value of municipal securities transactions reported by FINRA member firms to the MSRB during the previous quarter. GASB accounting support fees were \$6.2 million in 2014 and \$7.4 million in 2013. The decrease in GASB accounting support fees reflects an increase in the amount of Reserve Fund balances made available by the FAF to offset GASB expenses in 2014. The FAF paid FINRA \$30,000 for collection services in 2014 and 2013.

Subscriptions and Publications

Subscriptions and publications revenues for FASB and GASB product offerings are presented in the statements of activities on a combined basis, net of direct costs of \$4.2 million in 2014 and \$4.4 million in 2013. Gross revenues for FASB and GASB product offerings are separately broken out in the charts to the right for 2014 and 2013.

FASB Subscriptions and Publications

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

FASB subscription and publication revenues totaled \$16.0 million in 2014, consistent with 2013. License fees increased slightly from 2013 and represented 83% of the total subscription and publication revenues in 2014. In 2014, the number of subscribers to The FASB Subscription and the Professional View of the Codification fell slightly, resulting in a \$170,000 decline in subscription plan revenues. Sales of the FASB Codification annual bound edition decreased by \$149,000, reflecting a decrease in demand for the hard copy version of that work.

GASB Subscriptions and Publications

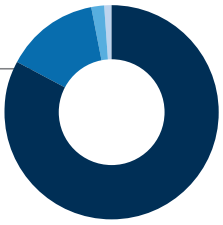
The FAF licenses GASB materials to commercial publishers and others for inclusion in their proprietary comprehensive online research systems. Beginning in March 2013, GASB materials are directly accessible online through the Governmental Accounting Research System (GARS). GARS Online can be viewed either through a free Basic View or as an annual paid subscription to the Professional View that provides advanced navigation and system functions. GASB materials also are available through various subscription plans sold directly by the FAF, including The GASB Subscription (consisting of final documents as issued), the GASB Board Packages, and the CD-ROM-based GARS. In addition, the FAF sells bound editions of the GASB Codification, GASB Original Pronouncements, and the GASB Comprehensive Implementation Guide, as well as hard copies of individual pronouncements, user guides, Research Reports, and other documents. GASB subscription and publication revenues totaled \$1.8 million in 2014, a 5% decrease from the 2013 revenues of \$1.9 million. License fees increased from 2013, and represented 61% of the total subscription and publication activity in 2014. Due principally to

the availability of free materials on GARS Online, subscription plan revenue decreased by \$78,000 and revenue from bound editions decreased by \$128,000. Revenue from bound editions was further impacted by the decision to not publish the 2014–2015 GASB Comprehensive Implementation Guide due to the ongoing GASB GAAP Hierarchy project.

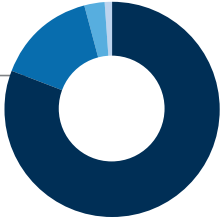
FASB Subscriptions and Publications

(dollars in thousands)

2014		
License Fees	83%	\$13,289
Subscription Plans	14%	\$2,295
Codification Bound Volumes	2%	\$363
Other	1%	\$68
Total	100%	\$16,015



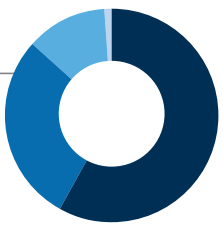
2013		
License Fees	81%	\$12,921
Subscription Plans	15%	\$2,465
Codification Bound Volumes	3%	\$512
Other	1%	\$77
Total	100%	\$15,975



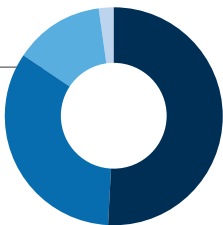
GASB Subscriptions and Publications

(dollars in thousands)

2014		
License Fees	61%	\$1,079
Subscription Plans	30%	\$548
Bound Editions	13%	\$139
Final Documents and Other	1%	\$23
Total	100%	\$1,807



2013		
License Fees	51%	\$979
Subscription Plans	33%	\$626
Bound Editions	14%	\$267
Final Documents and Other	2%	\$39
Total	100%	\$1,911



MANAGEMENT’S DISCUSSION AND ANALYSIS

Program Expenses

The FAF’s program expenses totaled \$38.9 million in 2014, an increase of \$2.6 million (7%) compared to \$36.3 million in 2013. The increase was primarily driven by the non-recurring \$3.0 million contribution to the IFRS Foundation. This was offset somewhat by a decrease in employee benefit costs of \$495,000 due to the lower periodic benefit costs for the Postretirement Plan (due to changes in the plan), and Employees’ Pension Plan and Supplemental Executive Retirement Plan (SERP) (both of which were frozen to benefit accruals as of December 31, 2013). Salaries and employee benefits comprise approximately 78% of the FAF’s program expenses. Other program expenses include domestic and international travel for the FASB and the GASB members and staff, costs for holding advisory group and other meetings, library subscriptions and other reference materials, and other miscellaneous expenses.

Support Expenses

The FAF’s support expenses totaled \$10.4 million in 2014, an increase of \$628,000 (6%) compared to \$9.8 million in 2013. The overall increase was driven by an increase in professional fees related to the development of the FAF’s strategic plan, the engagement of an outside consultant to perform a comprehensive compensation review (done every three years), and oversight related costs for a firm to enhance and broaden the FAF’s Trustee search capabilities over the next several years.

Pension-related changes not reflected in operating expenses

Pension-related changes are nonoperating adjustments to record the change in the funded status of the FAF’s defined benefit plans (the Employees’ Pension Plan and the SERP) and the Postretirement Plan. Pension-related changes are determined by comparing the fair value of plan assets against the actuarially determined amount of benefit obligations. The FAF recorded a nonoperating decrease in net assets of \$5.4 million for 2014 (compared to a \$4.8 million nonoperating increase in 2013). The valuation of the benefit obligation is highly sensitive to changes in the discount rate. The decrease in the discount rate in 2014, after an increase in 2013, increased the benefit obligation for all the plans. In addition, the FAF revised its mortality rate assumptions, which significantly increased the estimated valuation of the liabilities.

Class Action Settlement

In 2013, the FAF received \$2.5 million from the settlement of a class action suit related to losses associated with the FAF’s short-term investment accounts. The investment losses were incurred in 2007, due to a sharp decline in the net asset value of a historically stable short-term fixed income mutual fund, which was affected by the sub-prime mortgage crisis. The receipt is the final settlement payment; accordingly no similar amounts were received during 2014.

Statements of Financial Position

Reserve Fund Investments

The FAF established the Reserve Fund: (1) to provide the FAF, the FASB, and the GASB with sufficient reserves to fund expenditures not funded by accounting support fees or subscription and publication revenues; (2) to fund the operations of the FAF, the FASB, and the GASB during any temporary or permanent funding transition periods; and (3) to fund unforeseen contingencies.

If the projected year-end Reserve Fund balance, which is net of short-term investments, exceeds the year-end target Reserve Fund, the FAF has historically voluntarily contributed this amount to fund the FASB and the GASB recoverable expenses that otherwise would be funded by accounting support fees. Prior to 2014, the FAF’s policy was to maintain a target Reserve Fund balance equal to one year of budgeted gross expenses for the entire organization plus a working capital reserve equal to one quarter of net operating expenses for the entire organization. In 2014, the Trustees approved a change to the FAF’s cash management policy to cap the targeted year-end Reserve Fund at one year of budgeted operating expenses (eliminating the working capital reserve of one quarter of net operating expenses). This change is being phased in over a three-year period beginning in 2014. The change in policy reflects, among other things, improved working capital cash flow resulting from the quarterly billing of GASB accounting support fees.

Accounting support fee assessments in 2014 and 2013 were offset by the amounts made available from Reserve Funds of \$18.7 million and \$16.9 million, respectively. These amounts have benefited from favorable variances in revenues and expenses between budget and actual that carry over from the prior year and other items that affect the balance of the Reserve Fund. For 2014, these other items included the effect of the change in the FAF’s cash management policy to reduce the required amount of the Targeted Reserve Fund and the \$2.5 million received in 2013 pursuant to a class action settlement relating to the FAF’s 2007 investment losses.

Reserve Fund investments are unrestricted assets of the FAF and totaled \$67.6 million and \$72.1 million as of December 31, 2014 and 2013, respectively. The Reserve Fund’s assets were invested in approximately equal proportions in a money market mutual fund and a short-term, high-credit quality, fixed income mutual fund.

Accounting Support Fees, Subscriptions and Publications, and Other Receivables
Receivables as of December 31, 2014 and 2013, primarily included \$1.7 million and \$2.1 million of GASB accounting support fees and \$3.5 million and \$2.9 million of license fees, respectively. The remaining balance primarily related to subscriptions and publications.

Accrued Postretirement Health Care Costs

The funded status of the Postretirement Plan amounted to a \$1.6 million net liability in 2014, compared to a prepaid balance of \$2.0 million in 2013. This \$3.6 million change was primarily driven by an increase in the benefit obligation of \$4.0 million resulting from a decrease in the discount rate and changes in the mortality assumptions.

Accrued Pension Costs

Accrued pension costs include the projected benefit obligations of the SERP of \$1.9 million and the Employees’ Pension Plan liability of \$3.2 million. The balance in 2013 included the SERP liability of \$1.7 million and the Employees’ Pension Plan liability of \$2.0 million. The SERP was terminated effective December 31, 2013. In accordance with the provisions of the plan, final payouts to vested participants occurred in March 2015. The increase of \$1.6 million in the net liability of the Employees’ Pension Plan was primarily due to an increase of \$5.2 million in the benefit obligation due to the impact of the discount rate and mortality assumptions, partially offset by a \$4.0 million increase in the plan assets due to investment return and a \$1.0 million contribution.

Outlook for 2015

The FAF expects 2015 financial results to be affected by a number of strategic initiatives that align with the strategic plan approved by the FAF Board of Trustees in April of 2015. The strategic plan identified the following priorities:

- Practicing and promoting continued excellence in standard setting
 - Demonstrating a commitment to leadership in standard setting
 - Building and maintaining trust with stakeholders
 - Promoting public discourse on current and future financial reporting issues.
- Some of the initiatives relating to these priorities may include:
- Enhanced professional and leadership development initiatives for staff
 - Initiatives to attract and retain a quality, diverse workforce
 - More meetings with national standard setters and other international regulators and stakeholders
 - Development and implementation of a stakeholder relationship management plan and system
 - Enhanced communication and outreach to stakeholders
 - Initiatives related to thought leadership
 - Information Technology (IT) assessment to advance our technology solutions and IT capabilities.

We expect that much of our work on these initiatives will be accomplished with existing resources; however some additional operating costs may be incurred in 2015. These include costs for a comprehensive assessment of our use of technology and identification of new processes and systems to meet the current and future technology needs of the FAF, the FASB, and the GASB.

STATEMENTS OF ACTIVITIES

Years Ended December 31 (dollars in thousands)	2014	2013
Net operating revenue:		
Accounting support fees (Note 2):		
FASB	\$24,034	\$25,527
GASB	6,159	7,390
Total accounting support fees	30,193	32,917
Subscriptions and publications (Note 3)	17,822	17,886
Less-Direct costs of subscriptions and publications (Note 3)	4,168	4,433
Net subscriptions and publications	13,654	13,453
Contributions-FAF contributed services	192	110
Total net operating revenue	44,039	46,480
Program expenses:		
Salaries and wages	24,407	23,676
Employee benefits (Note 5)	6,005	6,500
Occupancy and equipment expenses (Note 7)	1,340	1,363
Depreciation and amortization	515	652
Professional fees	1,453	1,610
Contribution to the IFRS Foundation	3,000	-
Other operating expenses	2,204	2,543
Total program expenses	38,924	36,344
Support expenses:		
Salaries and wages	4,038	3,652
Employee benefits (Note 5)	1,240	1,768
Occupancy and equipment expenses (Note 7)	828	841
Depreciation and amortization	231	148
Professional fees	2,902	2,197
Other operating expenses	1,153	1,158
Total support expenses	10,392	9,764
Total program and support expenses	49,316	46,108
Net operating revenue (less) greater than expenses	(5,277)	372
Short-term investment income (Note 4)	22	19
Supplemental Pension Plan investment income (loss) (Note 5)	229	(93)
Reserve Fund investment income (Note 4)	686	425
Pension-related changes not reflected in operating expenses (Note 5)	(5,365)	4,798
Class action settlement (Note 4)	-	2,539
(Decrease) increase in net assets	(9,705)	8,060
Net assets at beginning of year	83,807	75,747
Net assets at end of year	\$74,102	\$83,807

See accompanying notes to these financial statements.

STATEMENTS OF FINANCIAL POSITION

As of December 31 (dollars in thousands)	2014	2013
Current Assets:		
Cash and cash equivalents	\$5,497	\$5,114
Short-term investments (Note 4)	9,233	8,994
Accounting support fee, subscription and publication, and other		
receivables (net of allowance for doubtful accounts of \$87 and \$92)	5,326	5,337
Prepaid expenses and all other current assets	383	394
Total current assets	20,439	19,839
Noncurrent Assets:		
Reserve Fund investments (Note 4)	67,588	72,140
Assets held in trust (Note 5)	2,853	2,391
Prepaid postretirement health care costs (Note 5)	-	1,993
Furniture, equipment, and leasehold improvements, net (Note 6)	2,311	2,718
Total noncurrent assets	72,752	79,242
Total assets	\$93,191	\$99,081
Current Liabilities:		
Accounts payable and accrued expenses	\$1,484	\$655
Accrued payroll and related benefits	1,131	1,135
Unearned publication and other deferred revenues	6,578	6,492
Total current liabilities	9,193	8,282
Noncurrent Liabilities:		
Accrued pension costs (Note 5)	5,161	3,705
Accrued postretirement health care costs (Note 5)	1,589	-
Accrued rent expense (Note 7)	2,352	2,728
Other liabilities (Note 5)	794	559
Total noncurrent liabilities	9,896	6,992
Total liabilities	19,089	15,274
Net Assets—Unrestricted	74,102	83,807
Total liabilities and net assets	\$93,191	\$99,081

See accompanying notes to these financial statements.

STATEMENTS OF CASH FLOWS

Years ended December 31 (dollars in thousands)	2014	2013
Cash flows from operating activities:		
Cash received from subscriptions and publication sales	\$17,461	\$17,910
Cash received from accounting support fees	30,651	33,938
Cash received from class action settlement	-	2,539
Interest and dividend income received	925	942
Cash paid to IFRS Foundation	(3,000)	-
Cash paid to vendors, employees and benefit plans	(49,178)	(47,060)
Net cash (used in) provided by operating activities	(3,141)	8,269
Cash flows from investing activities:		
Proceeds from sales of Reserve Fund investments	\$6,238	\$2,000
Purchases of Reserve Fund investments	(1,809)	(5,824)
Proceeds from sales of short-term investments	8,000	6,000
Purchases of short-term investments	(8,239)	(6,311)
Proceeds from sales of assets held in trust	3	126
Purchases of assets held in trust	(330)	(387)
Purchases of furniture, equipment and leasehold improvements, net	(339)	(2,492)
Net cash provided by (used in) investing activities	3,524	(6,888)
Net increase in cash and cash equivalents	383	1,381
Cash and cash equivalents at beginning of period	5,114	3,733
Cash and cash equivalents at end of period	\$5,497	\$5,114
Reconciliation of (decrease) increase in net assets to net cash (used in) provided by operating activities:		
(Decrease) increase in net assets for the period	\$(9,705)	\$8,060
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	746	800
Net realized and unrealized losses on Reserve Fund investments	123	399
Net realized and unrealized (gains) losses on assets held in trust	(135)	191
Provision for losses on accounts receivable	1	27
Decrease in accounting support fee, publication and subscription, and other receivables	10	935
Decrease (increase) in all prepaid costs	2,004	(2,022)
Increase (decrease) in accounts payable, accrued expenses, pension and other benefit accruals	3,870	(508)
Increase in other liabilities	235	288
Increase in unearned publication and other deferred revenues	86	83
(Decrease) increase in accrued rent expense	(376)	16
Total adjustments	6,564	209
Net cash (used in) provided by operating activities	\$(3,141)	\$8,269
Supplemental Information		
Noncash items included in the Statement of Activities:		
Pension-related changes not reflected in operating expenses	\$(5,365)	\$4,798

See accompanying notes to these financial statements.

NOTES TO FINANCIAL STATEMENTS

1 Nature of Activities and Summary of Significant Accounting Policies

Activities

The Financial Accounting Foundation (FAF), incorporated in 1972, is an independent, private-sector, not-for-profit, non-stock corporation with responsibility for establishing 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 selection 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)
- 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 subscriptions and publications 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).

The statements of activities are based on the concept that standard-setting is the sole program of the FAF. These statements set forth separately, where appropriate, revenues, costs of sales, and certain program expenses of the FASB and the GASB (Standards Boards), in recognition of their distinct responsibilities as described in the FAF's Certificate of Incorporation and By-Laws. Program expenses include salaries, benefits, and other direct operating expenses for the members and research staffs of the respective Standards Boards and Councils, as well as costs for the ongoing development of the U.S. GAAP Financial Reporting Taxonomy and the process for conducting post-implementation reviews of FASB and GASB standards. Program expenses also

include costs for external relations, government affairs and communications activities, and for the library services related to the standard-setting activities of the FASB and the GASB. In addition, program expenses in 2014 include a non-recurring contribution to the International Financial Reporting Standards Foundation (IFRS Foundation) to support the efforts of the IFRS Foundation's standard-setting body, the International Accounting Standards Board (IASB), to complete work on joint projects under way with the FASB. 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 unrestricted because none are subject to any donor-imposed restrictions.

Use of Estimates

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

Accounting Support Fees

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. See Note 2 for further information regarding accounting support fees.

Contributions

The FAF reports all contributions as increases in unrestricted net assets. Many individuals contribute significant amounts of time to the activities of the FAF, the Standards Boards, and their Advisory Councils without compensation. These individuals include certain members of the FAF's Board of Trustees and participants of the following groups: the FASAC and the GASAC, the Private Company Council, the FASB's Emerging Issues Task Force, and various other FASB and GASB councils, committees, task forces, and working groups on technical projects. Many others participate in the Standards Boards' processes by submitting comment letters, participating in public hearings and roundtable meetings, and taking part in field visits and field tests. 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. The other services described above

NOTES TO FINANCIAL STATEMENTS

are not included as contributions in the accompanying financial statements because they do not meet the recognition criteria.

Subscription Plans and Electronic License Agreements

Revenues from publication sources are recognized over the life of the applicable subscription service or license period, typically one year. Costs for the production of updates and for fulfillment are charged to expense as incurred.

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 (depreciation) includes gains (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, Subscriptions and Publications, 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 two defined benefit pension plans. Information with respect to the funded positions of each of the FAF's pension and other postretirement plans at December 31, 2014 and 2013 is set forth in Note 5.

Furniture, Equipment, and Leasehold Improvements

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

Income Taxes

The FAF is a tax-exempt organization under Section 501(c)(3) of the Code. Management has reviewed tax positions for open tax years and determined that a provision for uncertain tax positions is not required. The FAF is currently open to audit under the statute of limitations by the Internal Revenue Service and state taxing authorities for the years ended December 31, 2011 through 2013.

Subsequent Events

The FAF has evaluated subsequent events through April 24, 2015, the date through which the financial statements are available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

Recent Accounting Pronouncements

In May 2014, the FASB issued new authoritative guidance on revenue from contracts with customers. The guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. The FAF is currently assessing the impact that adopting this new accounting guidance will have on its financial statements and footnote disclosures.

2 Accounting Support Fees

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

The accounting support fees provide funding for recoverable expenses associated with FASB and GASB's standard-setting activities as identified in the FAF's operating and capital budget for each calendar year and reflect adjustments for noncash expenses and certain cash requirements not reflected in the statements of activities. 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. Sequestration amounts are determined on the federal government's fiscal year, which, for the 2014 sequestration, began on October 1, 2013, and ended on September 30, 2014. During 2014, the FAF sequestered approximately \$1.7 million with respect to the FASB accounting support fee. In November 2014, the OMB notified the FAF that the 2014 sequestered funds were available for spending for the 2015 federal fiscal year, which began October 1, 2014. The FAF understands that the FASB accounting support fee for federal fiscal year 2015 will be subject to sequestration in a similar manner.

The FASB accounting support fees recognized and related expenses included in the statements of activities for the past two years are as follows *(dollars in thousands)*:

Years Ended December 31	2014	2013
FASB accounting support fees	\$ 24,034	\$ 25,527
FASB program expenses:		
Salaries and wages	19,831	19,232
Employee benefits	4,888	5,183
Occupancy and equipment expenses	1,051	1,072
Depreciation and amortization	436	613
Professional fees	1,199	1,382
Contribution to the IFRS Foundation	3,000	-
Other operating expenses	1,751	2,107
Total FASB program expenses	32,156	29,589
FASB support expenses:		
Salaries and wages	3,302	2,981
Employee benefits	1,011	1,430
Occupancy and equipment expenses	660	669
Depreciation and amortization	185	119
Professional fees	1,345	890
Other operating expenses	703	688
Total FASB support expenses	7,206	6,777
Total FASB program and support expenses	39,362	36,366
FASB accounting support fees less than FASB program and support expenses	\$ (15,328)	\$ (10,839)

The GASB accounting support fees recognized and related expenses included in the statements of activities for the past two years are as follows *(dollars in thousands)*:

Years Ended December 31	2014	2013
GASB accounting support fees	\$ 6,159	\$ 7,390
GASB program expenses:		
Salaries and wages	4,576	4,444
Employee benefits	1,117	1,317
Occupancy and equipment expenses	289	291
Depreciation and amortization	79	39
Professional fees	254	228
Other operating expenses	453	436
Total GASB program expenses	6,768	6,755
GASB support expenses:		
Salaries and wages	736	671
Employee benefits	229	338
Occupancy and equipment expenses	168	172
Depreciation and amortization	46	29
Professional fees	347	221
Other operating expenses	214	176
Total GASB support expenses	1,740	1,607
Total GASB program and support expenses	8,508	8,362
GASB accounting support fees less than GASB program and support expenses	\$ (2,349)	\$ (972)

NOTES TO FINANCIAL STATEMENTS

The FASB and the GASB expenses include their allocable share of FAF program and support expenses. The FAF expenses are incurred for the common benefits of the FASB and the GASB.

Any differences (deficit or excess) of the accounting support fees recognized as revenues over the amount of recoverable expenses for an applicable calendar year (to the extent that the deficit was not financed from Reserve Fund balances) would be applied to the calculation of accounting support fees in subsequent years.

3 Subscriptions and Publications Revenues and Costs

Subscriptions and publications operating revenues and costs consist of the following (dollars in thousands):

Years Ended December 31	2014	2013
Subscriptions and publications revenues:		
FASB publications	\$ 16,015	\$ 15,975
GASB publications	1,807	1,911
	\$ 17,822	\$ 17,886
Direct costs:		
FASB publications	\$ 1,823	\$ 1,865
GASB publications	81	188
FAF administrative support	2,264	2,380
	\$ 4,168	\$ 4,433
Net subscriptions and publications revenues:		
FASB publications	\$ 14,192	\$ 14,110
GASB publications	1,726	1,723
FAF administrative support	(2,264)	(2,380)
	\$ 13,654	\$ 13,453

4 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	2014	2013
Short-term:		
Money market mutual fund	\$ 9,233	\$ 8,994
Reserve Fund:		
Fixed income mutual fund	\$ 33,736	\$ 36,325
Money market mutual fund	33,852	35,815
	\$ 67,588	\$ 72,140

Investment Income and Losses (dollars in thousands):

Years Ended December 31	2014	2013
Short-term:		
Interest and dividends	\$ 22	\$ 19
Reserve Fund:		
Interest and dividends	\$ 809	\$ 24
Net realized and unrealized losses	(123)	(399)
Total Reserve Fund investment income	\$ 686	\$ 425

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

Years Ended December 31	2014	2013
Fund balance, beginning of year	\$ 72,140	\$ 68,715
Transfers (to) from operations, net	(5,238)	3,000
Investment income	686	425
Fund balance, end of year	\$ 67,588	\$ 72,140

Reserve Fund assets are unrestricted and are maintained within the investment policies and guidelines for the Fund established by the Finance and Compensation Committee of the Board of Trustees.

In 2013, the FAF received \$2.5 million from the settlement of a class action suit related to losses associated with the FAF's short-term investment accounts in 2007, which is included as a nonoperating increase in net assets in the 2013 statement of activities.

5 Employee Benefits

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

Pension Plans

The FAF sponsors a contributory defined contribution plan (the Employees' Tax Sheltered Annuity Plan) and two defined benefit pension plans (the Employees' Pension Plan and the Supplemental Executive Retirement Plan (SERP), collectively the Defined Benefit Plans). Employees do not contribute to the Defined Benefit Plans. Effective January 1, 2008, the Defined Benefit Plans were closed to all new hires, and benefit accruals for participating employees ended as of December 31, 2013.

The SERP was terminated effective December 31, 2013. In accordance with the provisions of the plan, final payouts to vested participants occurred in March 2015, after a mandatory deferral period.

The FAF has established a Grantor Trust pursuant to Section 457(f) of the Code for the benefit of its SERP. The FAF made no employer contributions to the Trust during the years ended December 31, 2014 and 2013. Grantor Trust assets of \$2,083,900 and \$1,858,000 as of December 31, 2014 and 2013, respectively, are included as

part of assets held in trust on the accompanying statements of financial position, and accordingly, are not included in the change in plan assets due to the nature of the assets. The SERP Grantor Trust assets experienced investment income of \$229,000 in 2014, and investment losses of \$93,000 in 2013. The investments include mutual funds with asset allocations of 100 percent in fixed income investments. The investments are all measured using Level 1 inputs, as defined by U.S. GAAP.

The FAF maintains a 457(b) deferred compensation 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 plan assets and related liabilities of \$768,700 and \$532,700 as of December 31, 2014 and 2013, respectively, are included as assets held in trusts and other liabilities in the statements of financial position.

Employee benefits expense arising from the defined contribution plan was \$2,769,800 and \$2,543,900 for 2014 and 2013, respectively. Employer contributions to the plan are based on the

Assumptions

The principal actuarial assumptions used to determine periodic benefit costs and year-end benefit obligations for the Defined Benefit Plans and Postretirement Plan are as follows:

	Employees' Pension Plan		SERP		Postretirement Plan	
	2014	2013	2014	2013	2014	2013
Net periodic expense assumptions:						
Discount rate	4.60%	3.75%	0.50%	3.75%	4.75%	3.75%
Rate of compensation increase	N/A	3.50%	N/A	3.50%	N/A	N/A
Expected return on plan assets	5.40%	4.50%	N/A	N/A	6.60%	6.25%
Benefit obligation assumptions:						
Discount rate	3.75%	4.60%	0.45%	0.50%	3.85%	4.75%
Rate of compensation increase	N/A	N/A	N/A	N/A	N/A	N/A

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

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

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 will be limited for new hires after December 31, 2013, to the lesser of (1) the year-end 2013 calculated benefit amounts or (2) the calculated benefits offered during the year of retirement. Employees hired before January 1, 2014, are eligible for retiree benefits limited to the lesser of (1) health plan costs at 2013 calculated benefit amounts subject to a cap on potential annual increases not to exceed five percent (5%) per year or (2) calculated benefits offered during the year of retirement. Benefits for participants who were retired as of December 31, 2013, will not be affected by these amendments. The amendments resulted in a \$1,036,000 reduction in the accumulated pension benefit obligation for the year ended December 31, 2013, which is being amortized over the average period of full eligibility for active participants. The FAF funds retiree health care benefits through a Grantor Trust.

NOTES TO FINANCIAL STATEMENTS

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

	Defined Benefit Plans		Postretirement Plan	
	2014	2013	2014	2013
Change in benefit obligations:				
Benefit obligation, beginning of year	\$ 25,050	\$ 26,859	\$ 11,713	\$ 14,109
Service cost	–	600	530	679
Interest cost	1,056	987	550	524
Actuarial losses (gains)	5,301	(2,467)	3,231	(2,297)
Benefits paid	(947)	(929)	(417)	(407)
Retiree contributions	–	–	93	128
Medicare Part D reimbursement	–	–	16	13
Plan change	–	–	–	(1,036)
Benefit obligation, end of year	\$ 30,460	\$ 25,050	\$ 15,716	\$ 11,713
Change in plan assets:				
Fair value of plan assets, beginning of year	\$ 21,345	\$ 24,269	\$ 13,706	\$ 12,628
Employer contributions, net of Medicare Part D reimbursements of \$16 and \$13 in 2014 and 2013	1,000	–	–	–
Retiree contributions	–	–	93	128
Actual investment income (losses) on plan assets	3,898	(2,125)	745	1,357
Benefits paid	(944)	(799)	(417)	(407)
Fair value of plan assets, end of year	25,299	21,345	14,127	13,706
Funded status at end of year	\$ (5,161)	\$ (3,705)	\$ (1,589)	\$ 1,993
Amounts recognized in financial statements:				
Noncurrent assets	\$ –	\$ –	\$ –	\$ 1,993
Noncurrent liabilities	(5,161)	(3,705)	(1,589)	–
	\$ (5,161)	\$ (3,705)	\$ (1,589)	\$ 1,993
Amounts recognized as pension–related changes not reflected as operating expenses:				
Net actuarial losses (gains)	\$ 2,527	\$ 727	\$ 3,381	\$ (2,865)
Net prior service credit	–	–	–	(1,036)
Amortization of net actuarial losses	(454)	(1,067)	(349)	(685)
Amortization of net prior service costs (credits)	166	166	94	(38)
	\$ 2,239	\$ (174)	\$ 3,126	\$ (4,624)
Amounts not yet recognized as components of net periodic benefit costs:				
Net actuarial losses	\$ 10,536	\$ 8,464	\$ 6,647	\$ 3,615
Net prior service credits	(460)	(627)	(884)	(979)
	\$ 10,076	\$ 7,837	\$ 5,763	\$ 2,636
Amounts expected to be recognized during the year ended December 31, 2015 and 2014:				
Amortization of net actuarial losses	\$ 399	\$ 454	\$ 637	\$ 349
Amortization of net prior service credits	(145)	(166)	(95)	(95)
	\$ 254	\$ 288	\$ 542	\$ 254

Plan Assets

Investment objectives and policies for the plan assets are established by the Finance and Compensation Committee (Committee) of the FAF. The overall long-term investment strategy for the Employees’ Pension Plan and Postretirement Plan is to generate returns sufficient to meet obligations of 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, 2014, 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, 2014 and 2013, the majority of which were indexed. The following table presents the fair value of major categories of plan assets, all of which are measured using Level 1 inputs, as defined *(dollars in thousands)*:

Fair Value of Plan Assets at December 31	Employees’ Pension Plan		Postretirement Plan	
	2014	2013	2014	2013
Mutual funds (all Level 1):				
U.S. equity funds (a)	\$ –	\$ –	\$ 3,735	\$ 3,910
International equity index fund (b)	–	–	3,257	3,696
Fixed income funds (c)	25,221	21,269	7,135	6,100
Cash held by investment manager	78	76	–	–
Total	\$ 25,299	\$ 21,345	\$ 14,127	\$ 13,706

- 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 short-term, intermediate-term, long-term, and extended duration mutual funds.

Net Periodic Benefit Expense

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

	Defined Benefit Plans		Postretirement Plan	
	2014	2013	2014	2013
Service cost	\$ –	\$ 600	\$ 530	\$ 679
Interest cost	1,056	987	550	524
Expected return on plan assets	(1,124)	(1,071)	(895)	(789)
Amortization of prior period actuarial losses	454	1,067	349	685
Amortization of prior service costs (credits)	(166)	(166)	(94)	38
Net periodic benefit expense	\$ 220	\$ 1,417	\$ 440	\$ 1,137

NOTES TO FINANCIAL STATEMENTS

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

Year Ended December 31	Defined Benefit Plans	Postretirement Plan		
		Gross	Medicare Part D	Net
2015	\$ 3,822	\$ 311	\$ 9	\$ 302
2016	1,742	374	10	364
2017	1,577	420	11	409
2018	1,587	464	12	452
2019	1,604	514	13	501
2020-2024	8,468	3,645	93	3,552

The FAF expects to contribute \$1,000,000 to the Employees’ Pension Plan during 2015.

6 Furniture, Equipment, and Leasehold Improvements

At December 31 <i>(dollars in thousands)</i>	2014	2013
Furniture and equipment	\$ 7,958	\$ 7,643
Leasehold improvements	5,153	5,129
	13,111	12,772
Accumulated depreciation and amortization	(10,800)	(10,054)
	\$ 2,311	\$ 2,718

7 Lease Commitments

The FAF has an operating lease on the Norwalk, Connecticut office space until September 30, 2022. Total rental expense for office space and equipment amounted to \$1,976,400 and \$2,040,000 in 2014 and 2013, respectively. Accrued rent expense is attributable to escalating minimum lease payments, initial rent abatement, and leasehold improvement allowances. The rent expense liability is being amortized over the remaining term of the applicable operating lease.

Future minimum payments under the operating lease for office space, including the FAF’s current share of real estate taxes and other operating costs, are as follows *(dollars in thousands)*:

Year Ended December 31	
2015	\$ 2,237
2016	2,237
2017	1,681
2018	1,780
2019	2,369
Thereafter	6,547
Total minimum lease payments	\$ 16,851

MANAGEMENT’S REPORT ON FINANCIAL RESPONSIBILITY AND INTERNAL CONTROLS

Management of the Financial Accounting Foundation is responsible for the preparation of the accompanying financial statements, and for the fairness and accuracy of the financial information included in this annual report. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Management is also responsible for establishing and maintaining an adequate internal control structure and adequate procedures for financial reporting. The FAF maintains a system of internal controls designed to ensure the integrity, objectivity, and overall effectiveness of the accounting and financial reporting process.

The Board of Trustees of the FAF, through its Audit and Compliance Committee, oversees: (1) the organization’s financial and accounting policies and reports; (2) the organization’s internal control over financial reporting; (3) the system of accounting and related internal controls and the competence of persons performing key functions within that system; and (4) the scope and results of independent audits, including any comments received from auditors on the adequacy of internal controls and quality of financial reporting. The FAF’s auditors render an objective, independent opinion annually on the organization’s financial statements, and they have free and direct access to discuss matters with the Audit and Compliance Committee, with and without the presence or knowledge of management. The auditors are engaged by the Board of Trustees and report directly to the Audit and Compliance Committee.

The FAF’s Audit and Compliance Committee has chosen to follow certain requirements issued for public companies as promulgated by the New York Stock Exchange, the Securities and Exchange Commission, and other securities regulators, by developing and maintaining a charter governing its operations. Although the FAF is not a public company, the Audit and Compliance Committee has concluded that the organization should voluntarily comply with public company recommendations and regulations where appropriate. The Audit and Compliance Committee charter identifies the key objectives, functions, operating practices, membership requirements, and duties and responsibilities of the Committee. The responsibilities include regularly reviewing the charter to identify areas in need of enhancement, expansion, and/or clarification. The voluntary compliance effort has continued with respect to the audit committee and internal control provisions of the Sarbanes-Oxley Act of 2002, and the related Securities and Exchange Commission and Public Company Accounting Oversight Board guidance. The FAF has completed its compliance plan with respect to internal control over financial reporting (as addressed

for public companies by Section 404 of the Sarbanes-Oxley Act). The Audit and Compliance Committee’s charter is available through the office of the FAF’s President and Chief Executive Officer.

Management of the FAF is responsible for establishing and maintaining adequate internal control over financial reporting. The FAF’s internal controls are designed to provide reasonable assurance as to the reliability of the entity’s financial statements for external purposes. Internal control over financial reporting does have inherent limitations and may not prevent or detect all misstatements. Therefore, even those systems determined to be effective can provide only reasonable, and not absolute, assurance with respect to financial statement preparation and presentation. Also, due to changing conditions, the effectiveness of internal control over financial reporting may vary over time, and certain controls may prove to be inadequate.

Under the supervision and with the participation of other members of management, we have evaluated the effectiveness of the FAF’s internal control over financial reporting as of December 31, 2014. In making this assessment, we have utilized the internal control framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework (2013). We have concluded that, based upon our evaluation, the FAF’s internal control over financial reporting was effective as of December 31, 2014.

The Trustees also have adopted, and regularly monitor, personnel policies designed to ensure that employees of the FAF are free of conflicts of interest. Finally, to facilitate open communication, the Trustees, through the Audit and Compliance Committee, have adopted, and regularly monitor, an ombuds policy designed to provide an independent resource for reporting integrity or compliance concerns.



Jeffrey J. Diermeier
Chairman
Financial Accounting Foundation Board of Trustees



Teresa S. Polley
President & Chief Executive Officer
Financial Accounting Foundation

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF TRUSTEES
FINANCIAL ACCOUNTING FOUNDATION
NORWALK, CONNECTICUT

Report on the Financial Statements

We have audited the accompanying financial statements of the Financial Accounting Foundation which comprise the statements of financial position as of December 31, 2014 and 2013, and 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 of 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 Financial Accounting Foundation as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey LLP
New Haven, Connecticut
April 24, 2015



IN MEMORIAM JODI P. DOTTORI

On May 10, 2014, the FAF, the FASB, and the GASB lost our dear friend and colleague, Jodi Dottori, following a courageous fight with cancer. Beyond his extraordinary contributions to the work of the organizations, and his commitment to excellence in everything he did, Jodi's warmth, grace, friendliness, humor and generosity of spirit profoundly affected everyone who knew and worked with him.

Mr. Dottori had served as vice president and assistant secretary of the FAF since January 2009. He was appointed to the role of chief of staff of the Foundation in April 2010, after serving four years as its general counsel.



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