

Accountability Transparency Independence



4,386		10,062
2,151		1,825
(95)		(152)
(5,323)		
1,111		
	8,207	
(313)	(2,461)	
(1,169)		
27		
(3,066)		
2,229	28	
(1,869)	(1,846)	
371	2,956	
	(445)	
(3,790)	83	
	(1,685)	
152		
(245)	21	
3,039	(329)	
(3,121)	(2,340)	
	(2,648)	
(5,803)		
48,108	3,874	
42,305		
	108	

Financial Report



### **Financial Accounting Foundation**

The Financial Accounting Foundation (FAF), organized in 1972, is an independent, private-sector organization with responsibility for the oversight, administration, and finances of the Financial Accounting Standards Board, the Governmental Accounting Standards Board, and their Advisory Councils.



### **Financial Accounting Standards Board**

The Financial Accounting Standards Board (FASB), which began operations in 1973, establishes standards of financial accounting and reporting for private-sector entities, including businesses and not-for-profit organizations. Those standards are officially regarded as generally accepted and authoritative.



### **Governmental Accounting Standards Board**

The Governmental Accounting Standards Board (GASB), organized in 1984, establishes standards of financial accounting and reporting for state and local governmental entities. GASB pronouncements are recognized as generally accepted and authoritative.



### **Financial Accounting Standards Advisory Council**

The Financial Accounting Standards Advisory Council (FASAC) enhances the standard-setting process by consulting with the FASB on technical issues, project priorities, and other matters likely to concern the FASB.



### **Governmental Accounting Standards Advisory Council**

The Governmental Accounting Standards Advisory Council (GASAC) enhances the standard-setting process by counseling the GASB on technical issues, project priorities, and other matters likely to concern the GASB.

## A History of Standard Setting

“The Trustees believe that the Standards Board will achieve its mission: to develop standards for accounting and financial reporting that will build confidence in the reliability of financial data. The Board’s members, and the supporting staff, are working quietly, intently, and busily in the strengthening of that confidence.”

— *FAF Annual Report 1974*



**Strengthening confidence** — in financial reporting and the capital markets — is the foundation upon which the history of standard setting in the United States is built. The capital markets have consistently demonstrated that independent, objective accounting standards that result in transparent, high-quality financial reporting increase investor confidence. Increased investor confidence leads to better capital allocation decisions and, by extension, a stronger economy.

Formed in 1972 to study improvements to the U.S. standard-setting process, the so-called “Wheat Committee” strongly recommended that this function remain in the private sector. This led to the creation of the Financial Accounting Foundation, the Financial Accounting Standards Board (1973) and eventually, the Governmental Accounting Standards Board (1984).

Since inception, the FAF, FASB, GASB, and their respective staffs have indeed worked “quietly, intently, and busily” to strengthen confidence in the capital markets by establishing accounting standards that increase transparency and accountability. More than just standard setting, their histories shed light on the evolution of the U.S. economy.

# The History of FAF



## FASB

Since 1973, the Financial Accounting Standards Board (FASB) has been the designated, private-sector accounting standard-setter for nongovernmental entities in the United States. Created as an independent organization, and operating under the oversight of the Financial Accounting Foundation (FAF) and the Securities and Exchange Commission (SEC), the FASB's mission is to establish accounting and reporting standards that, if faithfully implemented, result in financial reports that provide useful information to investors, creditors, and other providers of capital.

The Great Depression of 1929 prompted efforts to create a recognized body of authoritative accounting principles. Many believed that the sometimes inferior, often varied accounting practices approved by auditors had contributed to the stock market decline and depression. As a result, Congress passed the Securities Acts of 1933 and 1934 that established the SEC and gave it authority to prescribe the accounting and reporting practices companies were to use in financial reports filed with the Commission, such as the 10Q (quarterly) and 10K (annually).

Beginning in 1937, the Commission initiated actions that set in motion private-sector development of a set of accounting principles primarily aimed at reducing reporting differences. Lacking a standard-setting organization within the SEC, the Commission's first chief accountant urged the accounting profession to take on the task of developing

those principles. In 1938, the Commission issued Accounting Series Release No. 4 that required companies filing financial reports with the SEC to use only accounting principles having “substantial authoritative support.” While ASR 4 gave the SEC authority to decide which principles had “substantial authoritative support,” it opened the door to recognizing as authoritative principles established in the private sector.

In 1938, the group now known as the American Institute of Certified Public Accountants (AICPA), established the Committee on Accounting Procedure (CAP) as its standard-setting body, intended to be the principal source of “substantial authoritative support” for accounting principles as required by the SEC. Between 1939 and 1959, the CAP issued 51 Accounting Research Bulletins in response to specific accounting issues as they arose. The work of the CAP came under heavy criticism in the late 1950s, as having failed to meaningfully reduce the many differing, yet “acceptable” alternative methods of accounting for specific transactions. Some alleged that those alternatives resulted in a lack of comparability in financial reports, raising the possibility that investors and others were being misled.

In response to those criticisms, the AICPA established the Accounting Principles Board (APB) in 1959 as its new standard-setting body. A goal of that newly formed, part-time Board was to reduce reporting diversity by setting forth both a framework of “fundamentals of financial accounting” and issuing guidance explaining how those fundamentals apply to specific transactions. During its 14-year tenure, the APB issued 31 opinions addressing specific financial reporting issues and an APB Statement setting forth the fundamentals of accounting.<sup>1</sup> In the late 1960s, however, the APB began to draw heavy criticism for many reasons, among them, concerns about the independence of a Board composed of part-time members, the ability of an all-volunteer Board to address urgent issues on a timely basis, and disappointment in the results of its efforts to establish the basic fundamentals of financial accounting.

To address those criticisms, the AICPA undertook a study aimed at improving financial reporting. Conducted by a committee chaired by Francis M. Wheat, a securities lawyer and former commissioner of the SEC, the study looked at ways to improve the function of setting accounting standards by evaluating the operations of the APB and proposing alternatives.

The Wheat Committee, as that committee became known, concluded that standard-setting should remain a private-sector activity but recommended replacing the APB with an independent and significantly strengthened standard-setting organizational structure. The recommended structure, which received broad support and the explicit endorsement of the AICPA and SEC,<sup>2</sup> was implemented in 1973 and remains in place today. The structure is composed of three organizations, each with a specific role. Those organizations include the FAF, the FASB, and the Financial Accounting Standards Advisory Council (FASAC).

The FAF serves as the parent of the FASB. Its principal duties include general oversight of FASB operations, including the selection and appointment of Board members. By design, the FAF ceded its standard-setting authority to the separate standard-setting body it established, the FASB.

The FASB was initially composed of seven, full-time Board members serving five-year terms, with possible reappointment to a second term (in 2008, the size of the Board was reduced from seven members to five). To promote independence and objectivity, the FAF decided that Board members would not be allowed any other business affiliations during their terms of service. To ensure that a diversity of views were considered in the development of standards, the FAF Board member selection criteria called for individuals with diverse backgrounds and experience in the areas of auditing, financial statement preparation, investing, and accounting academe.

The FASAC, drawn from constituents of the FASB standard-setting activities, was established to work closely with and “advise the Board on issues related to agenda projects, new agenda items, project priorities and procedural matters that may require the attention of the FASB, and other subjects as requested by the chairman of the FASB.”

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<sup>1</sup> APB Statement No. 4, *Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises*.

<sup>2</sup> Accounting Series Release No. 150, *Statement of Policy on the Establishment and Improvement of Accounting Principles and Standards* (issued in December 1973), states that “For purposes of this policy, principles, standards, and practices promulgated by the FASB in its Statements and Interpretations will be considered by the Commission as having substantial authoritative support, and those contrary to such FASB promulgations will be considered to have no such support.”

Then as now, FASAC’s diversity was intended to provide the FASB with perspectives from individuals of varied business and professional backgrounds.

The Wheat Committee acknowledged that the success of private-sector standard setting depends on the acceptability of its standards by the SEC, business, and the public at large. That acceptability is achieved through a combination of the FASB’s independence and the process it uses to establish standards, often called “due process.” The overriding objective of due process is to enable significant participation in the development of standards by all those with an interest in financial reporting, requiring that standards be issued only when the FASB is confident those views have been heard and considered. Key features of that process include:

- Decision-making meetings of the Board that are open to public observation
- Periodic consultation with FASAC and other task forces or advisory groups the FASB may choose to establish
- Exposure of proposed standards for public comment
- Discussion of proposals with interested constituents through roundtable meetings or other public forums.

In developing and improving accounting standards, the FASB faces the difficult challenge of balancing the need for timely improvements in financial reporting with a thorough and deliberative process that includes active participation by those interested in financial reporting.

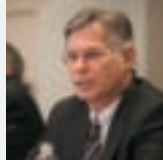
One of the most important and far-reaching decisions of the original FASB was to undertake a broad project to complete the task that neither the CAP or APB successfully accomplished – developing the fundamentals of financial accounting – the basic framework of objectives and concepts the Board would use as a basis for developing its standards. The FASB’s conceptual framework project was one of the first projects added to the newly formed Board’s agenda. By the time the project was completed in 1985, the Board had produced six Statements of Financial Accounting Concepts that provide a foundation for the development of future standards.

A significant contribution of this first conceptual framework project was to resolve the debate over the fundamental objective of financial reporting – to provide information that is useful in making rational investment, credit, and similar decisions. The Board also determined the quality characteristics that make accounting information useful and developed conceptual definitions of financial statement elements – two tools that would prove useful in developing future standards.

The FASB was less successful in resolving other controversial and fundamental conceptual issues, such as measurement and recognition in financial statements. The conceptual framework project concluded with a Statement of concepts that did little more than distill present practices in those fundamental areas. Over 20 years later, in 2005, the FASB decided to revisit those issues and added a conceptual framework project to its agenda. The goal of that project is to update and improve the existing concepts, filling gaps in areas such as measurement, disclosure, and presentation. This project is being conducted jointly with the International Accounting Standards Board (IASB), the aim being to produce a single enhanced conceptual framework that can be used internationally.

In the 35 years since its founding, the FASB’s standard-setting efforts produced many significant improvements in financial accounting and reporting, among them requirements for:

1972	1973	1974	1978	1980	1982	1984
The Study on Establishment of Accounting Principles, a.k.a. “The Wheat Report,” is issued. Conducted under the sponsorship of the American Institute of Certified Public Accountants (AICPA), the study recommends the establishment of the FAF, FASB, and FASAC.	FASB is established; FASAC holds its first meeting; first Statement of Financial Accounting Standards is issued ( <i>Disclosure of Foreign Currency Translation Information</i> ).	FASB hosts first public hearing.	FASB opens its Board meetings to public observation; adopts its first Statement of Financial Accounting Concepts, <i>Objectives of Financial Reporting by Business Enterprises</i> , representing first attempt to systematize the objectives of financial reporting into an evolving conceptual framework.	FAF establishes an ad hoc Government Accounting Standards Board Organization Committee (GASBOC) to formulate plan for an independent, private-sector standard-setting structure for state and local governmental accounting.	FASB begins publishing bound volumes of <i>Current Text</i> and <i>Original Pronouncements</i> .	FAF establishes the Governmental Accounting Standards Board (GASB) and the Governmental Accounting Standards Advisory Council (GASAC); GASB issues Statement No. 1, <i>Authoritative Status of NCPA Pronouncements and AICPA Industry Audit Guide</i> ; FASB establishes the Emerging Issues Task Force (EITF).



- Disclosure of information about segments of a business
- Preparing and providing a statement of cash flows
- Recognizing liabilities arising from pension and other postretirement benefit plans
- Presentation of financial statements of not-for-profit organizations and the accounting for contributions received
- Accounting for business combinations, in particular the elimination of the pooling-of-interests method
- Improved accounting for financial instruments, such as accounting and reporting for derivatives.

Many of the accounting issues the Board tackles and the solutions it proposes are highly controversial, making it necessary to bring about reporting improvements in an evolutionary, rather than a revolutionary, way. For example:

- The FASB decided to require disclosures about postretirement health care benefit liabilities and derivative financial instruments as a first step in the evolution of existing standards requiring recognition of those items in corporate balance sheets.
- Compromises made in the course of improving accounting for pension benefits resulted in income “smoothing” devices that allowed companies to report billions of pension and health care obligations off balance sheet for 15 years or so, until the Board modified the standards in 2006 to require sponsors to fully report those obligations on their balance sheets.
- The 1993 proposal to require a fair-value-based method of accounting for employee stock options produced a debate unprecedented in its divisiveness and congressional lobbying that led to legislation that would have nullified the proposed Statement and stripped the FASB of its authority. Despite unanimous support among the Board for the fair-value-based method, the FASB ultimately agreed to a disclosure-based solution to bring an end to the acrimonious debate. Ten years later, in the wake of the Enron and Worldcom financial reporting scandals, the FASB again took on this issue and succeeded in requiring a fair-value-based method of accounting for share-based payments. That project was conducted collaboratively with the IASB, resulting in substantially converged standards world wide.

Throughout its 35-year history, the FASB has needed to reconsider a number of accounting standards due to changing business practices and the evolution of new business models. For example, the FASB amended its consolidation standard in 1987 to eliminate the off-balance-sheet reporting enabled by the optional use of the equity method of accounting for finance subsidiaries. About 15 years later it again enhanced that standard to address consolidation of so-called special-purpose entities such as those used by Enron and others. The Board decided those standards required further sharpening in 2008 to bring about needed improvements brought to light by the credit crisis.

Some issues are also the subject of recurring controversy, such as “current value” or “fair value” reporting. The debate over the use of current values arose as early as 1918 as accountants wrestled with how to best deal with the effects of

#### 1987

FAF, FASB, and GASB prepare to move from Stamford to Norwalk, CT; publication of *EITF Abstracts* begins; GASB issues Concepts Statement No. 1, *Objectives of Financial Reporting*, that sets forth the premise that “accountability” is the cornerstone of financial reporting by state and local governments.

#### 1990

FASB issues earliest Statements about financial instruments with off-balance-sheet risk or concentration of credit risk, and postretirement benefits other than pensions (OPEB); FASB proposes an international conference on objectives and concepts for financial reporting, helping to initiate the “harmonization” movement toward international accounting standards.

#### 1993

FASB Exposure Draft on accounting for stock-based compensation generates over 1,000 comment letters.

#### 1995

FASB Statement No. 123, *Accounting for Stock-Based Compensation*, is released; FASB begins work on hedging and derivatives project.

#### 1996


FASB participates in extensive study comparing U.S. GAAP with standards set by the International Accounting Standards Committee.

#### 1998

FASB issues Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, requiring companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value; size of GASB is increased to seven members; GASB issues Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

#### 1999

FASB launches [www.fasb.org](http://www.fasb.org); GASB issues Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and completes new financial reporting model.



**“The FASB faces the difficult challenge of balancing the need for timely improvements in financial reporting with a thorough and deliberative process that includes active participation by those interested in financial reporting.”**

inflation. This debate periodically re-emerges and wanes as the United States moves in and out of periods of high inflation, recessions, and dislocation in the capital markets.

The current values debate took a different turn in the late 1980s, as regulators, investors, and others grew increasingly concerned about problems stemming from reporting financial instruments using amortized cost methods, particularly debt and derivative instruments. As early as 1990, the SEC, investors, and others began urging the Board to consider the use of market or fair value to address those problems. In the 20 years that have elapsed since then, the FASB has increased the use of fair value in its various projects to improve financial instrument accounting. The debate over fair value continues into the present day, with some calling for suspension of fair value rules based on the argument that the rules were exacerbating the current financial crisis. In its late 2008 study on mark-to-market accounting, the Office of the Chief Accountant of the SEC did not recommend suspension of existing fair value standards but did recommend additional measures that should be taken to improve the application and practice related to existing fair value requirements. The FASB continues to actively respond to those recommendations.

Accounting standard-setting arose from a perceived need to improve both the quality and comparability of information reported by U.S. companies. While the FASB's initial focus was on U.S. reporting, it soon assumed a leadership role in efforts to improve the quality and comparability of financial reporting internationally. In the 1980s, the FASB began to solicit input from standard-setting bodies from other countries by inviting them to participate on select FASB task forces. In 1991, the FASB issued its first plan for international activities. Consistent with that plan, the FASB undertook selected projects in cooperation with other standard setters, such as a concurrent project with the International Accounting Standards Committee (IASC, the predecessor body to the IASB) to improve and converge the measurement of earnings per share, and concurrent projects with the Accounting Standards Board of Canada on reporting segment disclosures and business combinations.

In 1999, the FAF and the FASB developed and published their vision for the future of financial reporting, setting forth the view that the ideal outcome of the evolution of accounting standards would be the worldwide use of a single set of high-quality standards. The FASB actively engaged in and supported the efforts to improve the quality of international standards through the restructuring of the IASC into the IASB. Shortly after the IASB launch, the two Boards committed to a common goal of a single set of high-quality standards. They have pursued this goal by working jointly to develop improved and common standards covering a broad array of issues.

Throughout its 35-year history, the FAF and the FASB have remained committed to the core tenets of independence and due process, but continually strive to improve and evolve in ways that enhance the FASB's effectiveness. Their efforts resulted in regular enhancements to the Board's due process. Most recently, the FAF decided to increase operating efficiency by reducing the size of the FASB from seven to five members, the FASB formed investor-oriented advisory groups and took other steps to actively engage investors in the standard-setting process, and the FAF and the FASB decided together to simplify U.S. GAAP by codifying and reorganizing the thousands of existing pronouncements into roughly 90 consistently organized accounting topics that will be accessible via the Internet.

In an ever-changing economy, the need for accounting and reporting standards that result in decision-useful financial reporting remains constant. As it looks to the future of "setting the standard for standard setting," the FASB will stay the course toward creating standards that enhance investor confidence and strengthen the capital markets.

2000	2001	2002	2003	2004	2006	2008
IASC is restructured, renamed the International Accounting Standards Board (IASB).	Enron scandal erupts; FASB initiates "variable interest entities" project to address accounting issues leading to Enron collapse.	FASB begins work on controversial stock options project; FASB signs "Norwalk Agreement" with IASB, signifying their agreement to work together on international convergence of accounting standards; GASB issues two Exposure Drafts on accounting for other postemployment benefits (OPEB).	New funding structure for the FASB initiated under Sarbanes-Oxley.	FASB issues standard on share-based payment, and begins work on major, multiyear codification project; GASB establishes reporting requirements for recognition of retiree health care and related benefits.	FASB helps launch XBRL, a technology language that enables preparers to code, or "tag," each element of a financial or business report with additional information about that element, making it easier for a computer to read so that it can be more easily extracted, searched, and analyzed by users.	FAF Board of Trustees approves major governance changes, including reduction of the FASB from seven to five members.

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# G A S B

In a representative democracy, governments are accountable to their citizens and taxpayers for how revenues collected are used to provide services for the common good.

The Governmental Accounting Standards Board (GASB) was created in 1984 as an independent, private-sector entity with a national scope to set accounting and financial reporting standards for state and local governments. As an operating entity of the Financial Accounting Foundation (FAF), the GASB establishes the necessary accounting and reporting standards to facilitate public accountability and greater transparency of government financial operations for citizens and other constituencies, such as legislative and oversight bodies, and investors and creditors.

To support the GASB, the FAF also established the Governmental Accounting Standards Advisory Council (GASAC) to communicate member views and those of the constituent organizations they represent. The 30-member GASAC consults with the GASB on its technical agenda and provides commentary on proposed and current standards.

While the GASB has only been in existence for the last 25 years, its standard-setting heritage dates back to 1894 when the National Municipal League, a reform organization established in New York, raised the concept of uniform reporting standards. It was the first organization to focus on financial reporting standard setting for state and local governments in the United States.

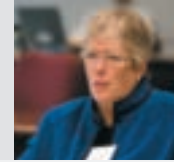
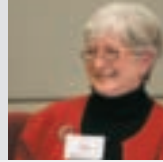
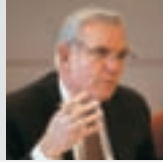
In 1904, the New York State Legislature enacted laws requiring uniform standards for government accounting and reporting.

In 1906, the newly established Bureau of Municipal Research issued publications on reporting concepts and standards for city governments. The procedures outlined by the Bureau became the basis for accounting practices of the day. By the 1920s, other states and cities were adopting the Bureau of Municipal Research guidelines.

In 1934, a number of interested parties, including the Municipal Finance Officers Association (now the Government Finance Officers Association), created the first formal accounting and financial reporting standard-setting body, the National Committee on Municipal Accounting (NCMA). The NCMA issued a number of publications that examined issues and practices in government accounting and codified their work in 1936 with *Bulletin No. 6, Municipal Accounting Statements*. The NCMA pronouncements marked the introduction of formalized governmental financial reporting in the United States and the subsequent evolution of the discipline of governmental accounting as it exists to the present day.

In 1949, the NCMA changed its name to the National Committee on Governmental Accounting to reflect its relevance to government organizations other than municipalities. In 1951, it issued *Municipal Accounting and Auditing*, as a collection and revision of its major publications. This document was regarded as the authoritative text for state and local governmental accounting and financial reporting. It also was widely recognized as the basis for the later editions of the "Blue Book," as it became known in the profession.

*Municipal Accounting and Auditing* was succeeded in 1968 by *Governmental Accounting, Auditing and Financial Reporting*. This version of the "Blue Book" was superseded by the National Council on Governmental Accounting (NCGA) Statement 1. The National Committee on Governmental Accounting had transformed into the NCGA in 1973. During its tenure through early 1984, the NCGA issued seven Statements and 11 Interpretations. Although progress in improving accountability and transparency was made over time, it became clear that the NCGA, with its 21 vol-



untary members (which included local, state, and federal government accountants, auditors, and managers, as well as practicing CPAs and academics), was underfunded and understaffed. In addition, because of its organizational structure, issues were raised regarding the independence of the NCGA.

In 1981, the Government Accounting Standards Board Organization Committee, an ad hoc working group, recommended the creation of an independent, adequately funded body for establishing governmental accounting and financial reporting standards. In 1983 and early 1984, with the assistance of the Government Accounting Standards Board Implementation Committee, the FAF made provisions for this new standard-setting body's implementation, and in June 1984, the GASB held its first meeting.

The GASB began operations by incorporating all of the effective NCGA pronouncements into GASB Statement 1 issued in July 1984.

At its inception, the GASB had been created as a five-member Board under the FAF. In 1997, the Board was expanded from five to seven members to be more representative of its diverse constituency, which included preparers and auditors of governmental financial statements, users of those statements, and members of the academic community.

During its first 15 years, the GASB improved accounting and financial reporting standards in a number of areas, including investments, pensions, nonexchange transactions, reporting entities, and development of concepts statements.

In June 1999, the GASB introduced a new approach for state and local governmental financial reporting. These standards revamped the governmental reporting model and what information was presented to citizens and other constituents, such as the financial community. It also changed the way public sector financial information was communicated to citizens, the media, creditors, bond raters, and legislative oversight bodies – anyone with an interest in government financial performance. For example, for the first time, reports showed information about the full cost of providing government services, including infrastructure reporting, such as roads and bridges or water and sewage treatment facilities. The standards also required a government organization to prepare a narrative analysis of its financial activities during the year.

Since the issuance of Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and its new accounting and financial reporting model, the GASB again turned its attention to other important accounting issues, including retiree health care and other postemployment benefits, asset impairments, derivative instruments, pollution remediation obligations, and intangible assets.

Since 1984, the GASB has issued 53 Statements to address governmental financial reporting issues and establish standards that meet the unique requirements of state and local governments. In 2008, as confidence in the financial system was tested, the GASB continued its efforts to help uphold the public trust in government.

As it completes its twenty-fifth year of service, the GASB can look back on its many accomplishments as the longest-serving state and local governmental financial reporting standard-setting organization in the United States. Its standards are recognized as generally accepted accounting principles for state and local governments, and the organization has been recognized by users of financial statements and others for substantially improving accounting and financial reporting for those governments.

## FAF: Past, Present, and Future

Facing and overcoming challenges, maintaining the independence and integrity of standard setting in a changing environment

“The Trustees believe that a viable structure is in place and a good start has been made toward accomplishing the mission.” – *from the Board of Trustees letter in the very first Financial Accounting Foundation Annual Report, 1973*

# FAF



Two thousand eight marked the 35th year of existence for the Financial Accounting Foundation (FAF). In 1973, the first year of operations for the FAF and the Financial Accounting Standards Board (FASB), President Richard Nixon was inaugurated for his second term. The first handheld cellular phone call was made. Federal Express officially began operations. The Ethernet went into operation, linking desktop computers into office networks. The oil crisis and soaring grain prices precipitated a world monetary crisis and then a worldwide economic recession, the worst, at that time, since the Great Depression. At the end of 1973, crude oil was just over \$4 a barrel and the Dow Jones Industrial Average closed at 850.86, down from 1,020.02 at the end of 1972, with more significant declines to follow in 1974.

Thirty-five years later, the United States witnessed history with the election of the country's first African-American president. Crude oil peaked at \$147.27 per barrel in July 2008. The Dow closed 2008 at 8,776.39, down from 13,264.82 at the end of 2007, with more significant declines to follow in 2009. This annual report, along with a wealth of other information, can be accessed on the Internet with a hand-held device, from which one can also make phone calls, download music, and make purchases that will be shipped overnight via FedEx.

In the years since the creation of the FAF and the FASB, much has changed. What has not changed in thirty-five years is the commitment of the FAF to its core mission – protecting the integrity and independence of the standard-setting process. Over the years, the Foundation has evolved to continue to fulfill this mission, most notably in 1984,

when it established the Governmental Accounting Standards Board (GASB) to set standards for state and local governments. Understanding the financial health of our state and local governments has perhaps never been as critical as it is today, as states and municipalities struggle in the current financial environment. From Wall Street to Main Street, corporations, small businesses, state and local governments, individuals, and taxpayers have been forced to adjust to an economic downturn some compare to the Great Depression. The current global financial crisis emphasizes the importance of timely, relevant, and transparent financial information.

Staying true to our mission has also required the Foundation to reinvent itself to better meet the needs of a rapidly changing global economic environment. In 2008, after thoughtful and thorough study, the FAF approved several changes to the oversight, structure, and operations of the FAF and its two standard-setting Boards.

In 2007, the FAF Trustees formed a Special Committee on Governance Review, responsible for reviewing the structure and operations of the FAF, the FASB, and the GASB to ensure the organizations continue to be optimally positioned to respond efficiently and effectively to the needs of changing markets. The Committee released its recommendations in December 2007, and after a public comment period, the Board of Trustees approved them at the end of February 2008.

Key among these changes were enhancements to the process by which FAF Trustees are nominated and elected. To draw ideas from a broader sample of its constituency, the Foundation agreed that nominations for at-large Trustees would be sought from a broad array of domestic and international investor, accounting, and business organizations; financial and capital markets participants; accounting and business academicians; consumer groups; regulatory organizations; and other interested parties. New processes also were instituted for the nomination and election of Governmental Trustees, Trustees with extensive experience as financial officers or as elected officials of state or local governmental entities. In February 2009, the Foundation announced the addition of three new Trustees appointed under these new procedures. They include Jeffrey J. Diermeier, who served as president and chief executive officer of the Chartered Financial Analyst (CFA) Institute until his retirement at the end of 2008; Cynthia P. Eisenhauer, former chief of staff for Iowa Governor Tom Vilsack, a consultant supporting state and local governments in strategic planning and budgeting and adjunct professor at Iowa State University in its Master of Public Administration Program, who fills a seat reserved for a governmental Trustee; and Dennis M. Kass, chairman and chief executive officer of Jennison Associates LLC, one of our nation's premier institutional investment management firms. They replaced retiring Trustees Duncan M. McFarland, Douglas R. Ellsworth, and Lee N. Price, each of whom served with distinction during their tenures on the Board. We extend our thanks to each for their dedicated service to the FAF.

The size of the Board of Trustees was also altered from a fixed number of sixteen to a range of fourteen-to-eighteen members – the exact number to be determined at the discretion of the Board. As part of the governance changes, Trustees now have a mandate to increase governance activities, both with respect to the oversight of the business practices and processes of the Foundation and the standard-setting processes of the FASB and the GASB.

Another important change to the structure of the FAF concerned the office of the chairman of the Board of Trustees. The Trustees voted to expand the chairman's role to reflect the additional responsibilities resulting from the increasing strategic needs of the organization. The chairman will focus primarily on strategic initiatives, provide vision and leadership to the Board of Trustees in achieving the FAF's enhanced oversight activities, consult regularly with the FASB and GASB chairs, and work closely with the FAF president.

As another key aspect of its governance review, the Board of Trustees approved a restructuring of its working committees to further enhance its level of review, analysis, and oversight of the organization's business practices and standard-setting processes. By establishing the Standard-Setting Process Oversight Advisory Committee, the Trustees reiterated their commitment to monitor and evaluate the adequacy, transparency, efficiency, and efficacy of the due process procedures followed by the FASB and the GASB. The Committee, which consists of four Trustees and the Chairs of FASAC and GASAC, will not involve itself in technical matters on the agendas of either standard-setting Board. Rather, the Committee's charge is to monitor the standard-setting processes of the FASB and the GASB. These processes include the setting of the technical agenda, the exposure of proposed standards, and the facilitation of the effective involvement of constituents. They also include the establishment, implementation, and



maintenance by the FASB and the GASB of a process for reviewing, post-implementation, the effectiveness of standards and issues raised by constituents in implementation.

The Trustees also reviewed the structure and operations of the FASB and the GASB. Several changes emerged, including vesting the FASB and GASB chairs with the authority to set their respective Board's project plans, agenda, and priority of projects, following appropriate consultation with their fellow Board members and consideration of other input. At the same time, the Trustees decided to reduce the size of the FASB from seven members to five. With the 2008 retirements of FASB members George J. Batavick, G. Michael Crooch, and Donald M. Young, the Trustees believed the time was right to make this change. The remaining seat on the FASB was filled in October 2008 with the appointment of Marc A. Siegel. A recognized expert in forensic accounting, Marc previously led the Accounting Research and Analysis team at the RiskMetrics Group in Rockville, Maryland. With 17 years of experience in diverse and global industries that include technology, media, telecommunications, health care, retail, and insurance, he is well-suited to the role held by the departing Board members, each of whom made significant contributions to the FASB.

The Trustees also reviewed the size and composition of the GASB, but because the GASB maintains a part-time Board, no changes to its size were recommended. Changes to the GASB itself did occur, however. During 2008, GASB Member Girard Miller resigned to accept a strategic consulting position in the private sector. His seat on the GASB was filled in January 2009 with the appointment of Michael D. Belsky. Since 2003, Mike has served as mayor of Highland Park, Illinois. During the past fifteen years, he also worked in senior management with Fitch Ratings. We welcome Mike to the GASB, and thank Girard for his contributions to the Board. In 2008, the Trustees reappointed GASB Chairman Robert Attmore to a second term, reaffirming their support of his leadership and demonstrated commitment to the GASB mission of producing high-quality accounting standards that result in greater accountability of state and local governments to their citizens.

Another on-going challenge the FAF addressed concerned funding of the GASB. Despite the GASB's important role, it has had no permanent, sufficient funding source, relying instead on financial support from several governmental organizations and voluntary contributors. This method has proven insufficient in meeting the organization's annual budget needs, resulting in budget shortfalls.

During 2008, the Trustees worked with representatives of key state and local governmental organizations toward the goal of stable, sufficient funding for the GASB. In November 2008, the FAF Trustees issued a set of resolutions affirming the importance of the GASB's role in standard setting and its existence as an independent body; the need for a permanent, sustainable funding base; and the Foundation's intention to negotiate in good faith with the governmental organizations before seeking other funding solutions. The Foundation expects to continue its efforts on this difficult issue throughout 2009.

In these uncertain economic times, it is clear that the companies, governments, and individuals behind sources of support for the FAF, the FASB, and the GASB have been negatively affected by the current financial crisis. We therefore strive to spend the Foundation's resources prudently whatever the economic conditions. In December of 2008, we took the difficult step of eliminating certain FAF staff positions. We also implemented changes to our pension plan to reduce our funding risk and ultimately reduce costs while preserving equitable benefits for our employees, and made changes to our medical plan that resulted in cost savings for the organization without a reduction in coverage for participants. We continue to review opportunities for cost savings while sustaining the quality, timeliness, and effectiveness of the accounting standards and due process procedures that are at the core of our mission.

Despite these challenges, in 2008 the Foundation continued to advance and advocate for what we believe to be in the best long-term interest of high-quality accounting standards. The FASB achieved a major milestone in its

long-term project to organize and simplify thousands of pieces of existing U.S. GAAP literature, revolutionizing the way preparers, auditors, and others research U.S. GAAP. January 2008 saw the launch of the one-year verification phase of the *FASB Accounting Standards Codification*<sup>™</sup> (Codification), during which constituents were encouraged to use the online system to research accounting issues and provide feedback on whether the Codification content accurately reflects existing U.S. GAAP. In July 2009, the FASB is expected to approve the Codification, which will become the single source of U.S. GAAP for nongovernmental entities.

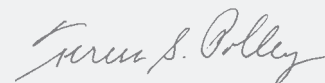
In 2008, the Foundation also reaffirmed its commitment to moving the United States toward a single set of high-quality global accounting standards. To that end, the Foundation and the FASB hosted a public forum on international convergence. Held in New York City, the June 2008 forum featured leaders from business, government, and academia exchanging views on whether and how to move the United States toward International Financial Reporting Standards (IFRS). Based on this input, and a study on international convergence conducted by independent consultants, the Foundation and the FASB submitted their joint response to the Securities and Exchange Commission's (SEC) *Roadmap for the Potential Use of Financial Statements Prepared In Accordance With International Financial Reporting Standards (IFRS) by U.S. Issuers* (the Roadmap). In our letter to the SEC, the FAF and the FASB reaffirmed support for the ultimate goal, and strongly supported the SEC's call for a study on the implications of implementing IFRS for investors and other market participants, calling it a necessary first step in determining the most advantageous approach the United States should take in moving toward the ultimate goal of a single set of high-quality global accounting standards.

Looking forward, the Foundation will continue to focus its efforts on ensuring and protecting the independence of standard setting for businesses and government organizations, and to continue its oversight, funding, and appointment responsibilities for the FASB, the GASB, and their advisory councils. Our role in this regard will become more critical in 2009, as the domestic financial regulatory system comes under review by U.S. policymakers. We believe that high-quality accounting and reporting standards, developed by an independent, private-sector organization, help protect and empower investor confidence, facilitate efficient operation of the capital markets, enable citizens to determine the ability of their state and local governments to fulfill public policy missions, and ultimately contribute to strong, sustainable economic growth. To that end, the FAF will continue to serve the needs of all who expect accurate, transparent, and timely information critical to strategic investment decisions in a constantly changing global economy.

As we did in 1973, the Trustees continue to believe that a viable structure is in place, one that continues to be critical in fulfilling our mission of producing high-quality standards through an open due process. Our Trustees, Board members, advisory groups, and staff provide the initiative, guidance, and support that make our mission possible and highly regarded by our constituents. We wish to express our sincere thanks to all of them for their enthusiasm and commitment.



John J. Brennan  
Chairman



Teresa S. Polley  
President

#### **Postscript from Teresa Polley**

In early 2009, John J. Brennan, chairman of Vanguard, was elected chairman of the FAF. An FAF Trustee from 1998 to 2003, Jack has been with Vanguard since 1982, where he was elected president in 1989, served as chief executive officer from 1996 to 2008, and has been chairman of the board since 1998. He served as chairman of the Investment Company Institute and is a governor of the Financial Industry Regulatory Authority (FINRA).

Jack succeeds Robert E. Denham, a senior partner at Munger, Tolles & Olson LLP, who retired from the FAF chairman role he held since 2003. Bob served the Foundation with distinction and was instrumental in strengthening the independence, integrity, and financial stability of the FASB and the GASB. We thank Bob for his legacy of integrity, leadership, and vision.

# F A S B



“Sound, unbiased information is the oxygen of the financial markets. Depriving markets of such information – or polluting the information – can have very adverse consequences.”

By most measures, 2008 was a very difficult and challenging year for virtually everyone – a year of accelerating home foreclosures, failing financial institutions, plunging equity markets, frozen credit markets, and a global economy in deepening recession. The government rescue of major financial institutions and likely major regulatory reforms augur profound and long-lasting changes in the financial system and capital markets.

As we continue to examine and understand the causes of the global financial crisis, many important themes and lessons emerge. From my particular perch in the capital markets, three important themes relating to the functioning of capital markets deserve particular focus.

First, I believe that the crisis has reinforced the critical importance of transparency and sound financial information. Second, the crisis reminds us that sound markets require proper infrastructures and proper regulation to operate effectively. Finally, the crisis has demonstrated that global problems require global solutions. Let me elaborate a bit more on each of these important topics.

### **The Importance of Transparency**

Transparency in financial reporting helps promote investor confidence and fosters better capital allocation; lack of transparency can impair trust and confidence in financial reports and lead to poor investment decisions, resulting in negative effects on the economy at large. Thus, sound, unbiased information is the oxygen of financial markets. Depriving markets of such information – or polluting the information – can have very adverse consequences.

It cannot be overemphasized that the role of general purpose external financial reporting is to help provide this needed transparency. It should not be regarded as just a compliance exercise or as a vehicle to spin and to manage “a story.” Unfortunately, with the benefit of hindsight, it is apparent that significant risks were largely hidden from investors by some major financial institutions through excessive investments in complex structured products, by off-balance-sheet treatments that stretched and went beyond existing accounting standards, and through a lack of clear and ample disclosure.

Additionally, a tendency to blame accounting for poor results and deteriorating financial conditions and for causing “procyclical effects” was evident in some of the sharp attacks on “mark-to-market accounting.” While fair value measurements are often far from perfect, their use in financial reporting is hardly new, contrary to assertions by some.

FASB Statement No. 157, *Fair Value Measurements*, neither introduced nor expanded the required use of fair value measurements. Rather, it provides a consistent definition and framework for making such measurements and requires significantly enhanced disclosures in this area. And so, while there are legitimate issues with fair value, particularly in illiquid markets, investors have overwhelmingly supported its use in helping them better understand on a timely basis the performance, financial condition, and risks of entities, particularly financial institutions.

In that regard, the Emergency Economic Stabilization Act of 2008, more popularly known as the “bank bail-out bill,” required the Securities and Exchange Commission (SEC) to conduct a study on mark-to-market accounting and its effect on financial institutions. Not surprisingly, in its report issued to Congress in December 2008, the SEC found that “investors generally believe that fair value accounting increases financial reporting transparency and facilitates better investment decision making.” The study also clearly demonstrated that fair value accounting did not cause banks to fail; rather, poor lending decisions and deteriorating credit, risky investments and inadequate risk management processes, and excess leverage were the primary factors behind the failures of financial institutions over the past year.

Nevertheless, the financial crisis has revealed a number of significant deficiencies and points of stress in current accounting standards. We’ve responded vigorously over the past year with changes to standards and enhanced disclosures relating to securitizations and the use of special-purpose entities, financial guarantee insurance, and credit default swaps and other derivatives. We have also provided additional guidance on valuing items in illiquid and inactive markets and on evaluating impairments of financial assets.



**“Resolving the issues underlying the global crisis will be an enormous task, but there is optimism to be found in the strong international cooperation on crisis issues.”**



### **Structure of Markets and Regulation**

The sound and effective operation of financial markets requires that there be proper infrastructures and appropriate regulation. Without proper infrastructures that facilitate the flow of information and price discovery and that provide for effective clearing mechanisms, markets can become dysfunctional. Effective oversight and regulation are also key ingredients of sound markets, as are the exercise of appropriate due diligence by investors and proper risk management by companies. Building and maintaining such infrastructures and processes will be key to restoring public trust and confidence in the financial system and capital markets.

Sound, unbiased financial information is also a key component of the infrastructure needed to support the effective functioning of markets and is vital to promoting public confidence in companies and the capital markets. So while regulators and policymakers are empowered to develop and apply capital requirements, tax incentives and subsidies, and fiscal and monetary policies that are designed to promote particular business and economic objectives, accounting standards must aim to be neutral, neither favoring or disfavoring particular business, economic, or social goals other than facilitating the transparent reporting by companies to investors and the capital markets. Therefore, it is critical that this fundamental tenet of independent accounting standard setting be remembered, preserved, and protected in any reform of our regulatory system.

### **Global Problems Require Global Solutions**

The financial crisis and resulting economic downturn is a global phenomenon. We have witnessed firsthand how problems in one financial system and economy quickly spread around the world.

Resolving the issues underlying the global crisis will be an enormous task, but there is optimism to be found in the strong international cooperation on crisis issues. This cooperation has included market-led efforts such as those by the Institute for International Finance, the Counter Party Risk Management Policy Group, and the G30 as well as increasing collaboration and coordinated efforts by governments, central bankers, and regulators through the G20, the International Organization of Securities Commissions, the Financial Stability Forum, and the Basel Committee.

And strong actions by the U.S. Administration, Congress, the Federal Reserve, and others are signaling to overseas markets that the United States is willing to urgently and forcefully address these issues in a collaborative way and to do its part to help restore global confidence in the financial system and the capital markets.

Fortunately, international cooperation in accounting standard setting is not new and is well established. We continue to work actively with the International Accounting Standards Board (IASB) to coordinate our actions and to improve and converge our standards in major areas, including those relating to accounting for financial instruments. Our joint standard-setting efforts have benefited from the input we received at a series of global roundtables we held in November and December 2008 on reporting issues relating to the financial crisis and from the ongoing discussions of our new, senior-level Financial Crisis Advisory Group.

Beyond the financial crisis, we continue to work with the IASB on other joint projects aimed at creating a common set of high-quality global accounting standards. In September, the Boards published an updated version of their 2006 Memorandum of Understanding describing their progress since 2006 and establishing forward milestones on major joint projects aimed at developing common high-quality standards. In October 2008, the Boards issued a Discussion Paper with our preliminary views on significant improvements to financial statement presentation and in December we issued a joint discussion document on the very important subject of revenue recognition.

In closing, I would like to thank my fellow Board members, our Trustees, and the dedicated and hardworking members of the FASB and the FAF staff for your tremendous efforts in a very challenging period. I would also like to thank the members of our various advisory councils, committees, and working groups for your invaluable participation in our standard-setting activities. The work of the Emerging Issues Task Force and the input we receive from the Financial Accounting Standards Advisory Council, the Investors Technical Advisory Committee, the Small Business Advisory Committee, and the Private Company Financial Reporting Committee are critical to developing sound standards, as is all the input we receive through comment letters, public roundtables, and meetings with constituents. It is important and is much appreciated.

# FASB Members



*Robert H. Herz*  
Chairman (2012)  
Mr. Herz was Senior Partner with Price-waterhouseCoopers and its North America Theater Leader of Professional, Technical, Risk & Quality.



*Thomas J. Linsmeier*  
(2011)  
Mr. Linsmeier was Russell E. Palmer Endowed Professor and Chairperson of the Department of Accounting and Information Systems at Michigan State University.



*Leslie F. Seidman*  
(2011)  
Ms. Seidman was Vice President at J.P. Morgan and Co. and more recently managed her own financial reporting consulting firm.



*Marc A. Siegel*  
(2013)  
A recognized expert in forensic accounting, Mr. Siegel was the Director of Research at the Center for Financial Research & Analysis (CFRA), prior to the firm's acquisition by RiskMetrics Group.



*Lawrence W. Smith*  
(2012)  
Mr. Smith was a Partner at KPMG prior to joining the FASB in 2002, where he spent five years as FASB's Director of Technical Application and Implementation Activities before his 2007 appointment to the Board.

The mission of the FASB is to establish and improve standards of financial accounting and reporting for the guidance and education of the public, including issuers, auditors, and users of financial information.

## Documents Issued First Quarter 2008

Statement 133 Implementation Issue No. E23, *Issues Involving the Application of the Shortcut Method under Paragraph 68*. (Issued Jan 2008)

FSP FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*. (Issued Feb 2008)

FSP FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13*. (Issued Feb 2008)

FSP FAS 157-2, *Effective Date of FASB Statement No. 157*. (Issued Feb 2008)

FSP FIN 48-2, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. (Issued Feb 2008)

FSP SOP 07-1-1, *Effective Date of AICPA Statement of Position 07-1*. (Issued Feb 2008)

Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. (Issued Mar 2008)

Proposed FSP FAS 157-c, *Measuring Liabilities under FASB Statement No. 157*. (Issued Jan 2008)

Proposed FSP FAS 117-a, *Endowments of Not-for Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures*. (Issued Feb 2008)

Proposed FSP SOP 90-7-a, *An Amendment of AICPA Statement of Position 90-7*. (Issued Feb 2008)

Proposed FSP FAS 132(R)-a, *Employers' Disclosures about Postretirement Benefit Plan Assets*. (Issued Mar 2008)

Invitation to Comment, *Reducing Complexity in Reporting Financial Instruments*. (Issued Mar 2008)

## Documents Issued Second Quarter 2008

FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets*. (Issued Apr 2008)

FSP SOP 90-7-1, *An Amendment of AICPA Statement of Position 90-7*. (Issued Apr 2008)

Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. (Issued May 2008)

Statement No. 163, *Accounting for Financial Guarantee Insurance Contracts*. (Issued May 2008)

FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. (Issued May 2008)

FSP SOP 94-3-1 and AAG HCO-1, *Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations*. (Issued May 2008)

FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. (Issued Jun 2008)

Proposed FSP ARB 43-a, *Amendment of the Inventory Provisions of Chapter 4 of ARB No. 43*. (Issued May 2008)

Proposed Concepts Statement, *Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information*. (Issued May 2008)

Preliminary Views, *Conceptual Framework for Financial Reporting: The Reporting Entity*. (Issued May 2008)

Proposed FSP FAS 133-b and FIN 45-c, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45*. (Issued May 2008)

Proposed Statement, *Disclosure of Certain Loss Contingencies*. (Issued Jun 2008)

Proposed Statement, *Accounting for Hedging Activities*. (Issued Jun 2008)

## Documents Issued Third Quarter 2008

FSP FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. (Issued Aug 2008)

FSP FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*. (Issued Sep 2008)

Revised Exposure Draft, *Earnings per Share*. (Issued Aug 2008)

Proposed FSP FAS 140-e and FIN 46(R)-e, *Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities*. (Issued Sep 2008)

Revised Exposure Draft, *Accounting for Transfers of Financial Assets*. (Issued Sep 2008)

Exposure Draft, *Amendments to FASB Interpretation No. 46(R)*. (Issued Sep 2008)

Proposed FSP FAS 144-d, *Amending the Criteria for Reporting a Discontinued Operation*. (Issued Sep 2008)

## Documents Issued Fourth Quarter 2008

FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. (Issued Oct 2008)

FSP FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities*. (Issued Dec 2008)

FSP FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. (Issued Dec 2008)

FSP FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*. (Issued Dec 2008)

Proposed FSP FAS 157-d, *Determining the Fair Value of a Financial Asset in a Market That Is Not Active*. (Issued Oct 2008)

Proposed Statement, *Going Concern*. (Issued Oct 2008)

Proposed Statement, *Subsequent Events*. (Issued Oct 2008)

Discussion Paper, *Preliminary Views on Financial Statement Presentation*. (Issued Oct 2008)

Proposed FSP FIN 48-c, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. (Issued Nov 2008)

Proposed FSP FAS 141(R)-a, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*. (Issued Dec 2008)

Proposed FSP No. EITF 99-20-a, *Amendments to the Impairment and Interest Income Measurement Guidance of EITF Issue No. 99-20*. (Issued Dec 2008)

Discussion Paper, *Preliminary Views on Revenue Recognition in Contracts with Customers*. (Issued Dec 2008)

Proposed FSP FAS 107-a, *Disclosures about Certain Financial Assets: An Amendment of FASB Statement No. 107*. (Issued Dec 2008)

# G A S B



“For the GASB, transparency and public accountability are more than just political or media buzzwords – they are a key part of our reason for being.”

In these tumultuous economic times, the terms *transparency* and *accountability* have been much bandied about. For the GASB, transparency and public accountability are more than just political or media buzzwords – they are a key part of our reason for being. Since 1984, the GASB’s mission has been to develop accounting standards that result in transparent financial reporting, helping state and local governments to demonstrate their stewardship over scarce resources to their citizens and taxpayers. At no time in our quarter of a century of existence has this mission been more critical than in 2008 – a year of economic crises that saw many bondholders, taxpayers, and other economic stakeholders calling for greater fiscal oversight.

### **A Difficult Year for Governments**

In 2008, many state and local governments across the United States experienced significant financial pressures as a result of a confluence of events that undercut key revenues while increasing the need for certain expenditures. The significant decline in housing values affects property taxes, the number one revenue source of many cities, towns, and school districts. The overall economic downturn’s rash of bankruptcies, mergers, and job losses has cut into a variety of government revenues, including personal and corporate income taxes, capital gains taxes, and sales taxes. Governments that had entered into financial transactions with some formerly highly regarded investment banks were left to address new financial problems when those counterparties collapsed. Some financial instruments, like derivatives and auction-rate securities, have failed to provide the income or protection that governments were expecting, leaving governments exposed to more risk than at any time in recent memory and facing the prospect of having to make large cash payments to their creditors or counterparties.

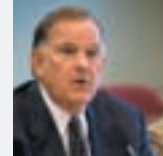
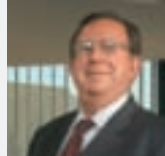
Despite the decline in revenues, the demand for basic public services – such as elementary and secondary education, police, fire, and sanitation – remains. Certain spending pressures – including economic assistance and health care for the poor, unemployment insurance, and public transportation – have increased substantially. Unlike corporations and other commercial enterprises, governments do not have the option to shut their doors and cease operations when funding runs short. Governments are expected to operate on a continuing basis, around-the-clock, year after year, and citizens place their trust in public officials to make fiscally responsible decisions to meet these operational needs. As a consequence, governments are always looking for new funding solutions to meet service demands. High-quality financial reporting is essential to provide transparency regarding where and how tax dollars and other resources are being spent.

### **Timely Action on Standards in 2008**

To achieve the goal of high-quality financial reporting – while responding to the challenges of a rapidly changing economic landscape typified by the financial crises of 2008 – the GASB issued standards that will shed more light on governments’ use of resources and management of financial risks. Chief among these standards issued in 2008 was Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

***Derivative instruments.*** Derivatives are financial instruments used by governments to manage specific risks or generate investment income. In recent years, a number of state and local governments looked to the capital markets to control or reduce their borrowing costs and other costs of operations. Although governments tend to stay away from the more exotic financial instruments, many did enter into derivatives such as interest rate swaps. When the auction-rate markets failed in 2008 and the bond insurance industry encountered rating downgrades, many governments began unwinding their interest rate swap positions as the value of their derivatives plummeted. In some cases, governments faced the prospect of having to make significant termination payments.

Statement 53 was developed to help state and local governments report on their derivative instruments exposure. It requires governments to report derivative instruments at their fair value in the financial statements and to report the annual changes in fair value as investment income. The new standard also introduces hedge accounting treatment for effective hedging derivatives – those that substantially offset changes in fair value or cash flows of the debt or other items with which they are associated. Rather than being recognized immediately as investment income, the annual changes in the fair value of effective hedges will be deferred until the derivative ends, is terminated, or



ceases to be effective. The deferral of fair value changes of effective hedging derivatives results in a more accurate reporting of the underlying economic result of the hedge arrangement.

**Retirement benefits.** Another issue of great significance that was further underscored by the financial crises was the impact of other postemployment benefits (OPEB) on state and municipal budgets. OPEB comprises health insurance and other retirement benefits, apart from pensions, that governments promise to their employees as part of their compensation. OPEB already consumes a substantial portion of state and local government resources, and the rising cost of health care and other factors produce an unfunded financial obligation that poses a considerable challenge for governments going forward.

Addressing the reporting of retirement benefit obligations is high on the Board's current technical agenda. The Board is considering the possibility of modifying existing standards of accounting and financial reporting for pension benefits and OPEB by state and local governmental employers and by the trustees, administrators, or sponsors of pension or OPEB plans. One objective of the project is to examine whether the existing standards help financial report users assess the degree to which *interperiod equity* has been achieved; that is, whether current-year taxpayers have provided adequate resources to pay for the cost of current-year services. Another objective is to review the *usefulness* of the information required by existing GASB standards to the decisions made by the various users of the general purpose external financial reports. The Board issued an Invitation to Comment in the first quarter of 2009 to solicit views on major issues related to pension accounting and financial reporting and potential alternative ways to address them.

**SEA reporting.** Another area the GASB revisited in its existing Concepts Statements was the reporting of service efforts and accomplishments (SEA) information—an issue the GASB first addressed in 1994 with GASB Concepts Statement No. 2, *Service Efforts and Accomplishments Reporting*. Reporting SEA information can help improve government accountability and help government managers, governing bodies, and citizens make better informed decisions about how to improve the efficiency and effectiveness of government services. Based on extensive research suggesting constituents believe the GASB should provide guidelines for reporting on SEA, the GASB embarked on a project in 2007 to look back at lessons learned since 1994 and consider what updates or revisions to the concepts were needed.

In April 2008, the GASB published an Exposure Draft of proposed amendments to Concepts Statement 2. The amendments clarified the Board's vision of what the GASB's role in regard to SEA reporting should, and should not, be. Specifically, the Board made clear that it is *not* the GASB's role to:

- Develop the goals and objectives of state and local government services
- Create specific nonfinancial measures or indicators of service performance
- Set targets or benchmarks for service performance.

This project culminated with the issuance of Concepts Statement No. 5, *Service Efforts and Accomplishments Reporting* (an amendment of GASB Concepts Statement No. 2), in November.

In addition to the conceptual framework update, in July the GASB issued a Request for Response on *Suggested Guidelines for Voluntary Reporting of SEA Performance Information*. The purpose of that document was to obtain feedback from constituents at an early stage of the project. Following a review and analysis of the public comments, the GASB is revising the suggested guidelines and expects to release an additional proposal for public comment in 2009.

### **Major Project Milestones in 2009**

As we move further into 2009, governments continue to wrestle with budget shortfalls and strict funding limitations while the national economy navigates through the currents of recession. The GASB will continue to lend its guidance and support to state and local governments, as they work through challenges, to maintain a transparent financial reporting process. To that end, several key projects are on the GASB agenda for 2009.

**Fund balance reporting.** Perhaps one of the most daunting financial reporting issues faced by government administrators concerns presenting fund balance – the difference between assets and liabilities in governmental funds – in a way that clearly communicates the spending constraints associated with those balances. Currently, the GASB is carefully examining how changing some of the basic ways to report fund balance can improve consistency and understandability. The Board expects to issue new fund balance reporting standards in the first quarter of 2009.

**Public/private partnerships.** Another important project on the Board's 2009 agenda is intended to provide accounting and financial reporting guidance for public/private partnerships (PPPs). Governments are increasingly using PPPs to manage infrastructure operating costs and to leverage private capital investment in government projects. The project will entail determining whether existing authoritative guidance is sufficient to address the accounting and financial reporting issues resulting from PPPs, or whether new standards are necessary to address these issues. An Exposure Draft is expected to be issued in the first half of 2009.

**Chapter 9 bankruptcies.** A sign of the difficulties some governments are having in coping with their major long-term financial obligations is the renewed interest in the possibility of filing for bankruptcy protection under Chapter 9 of the U.S. Bankruptcy Code. This project will consider whether specific guidance is needed regarding how a government should account for and report its finances after having formally petitioned for relief under Chapter 9. If additional guidance is found to be needed, then the GASB plans to issue an Exposure Draft by mid-2009.

### **Looking to the Future**

There is always a need for high-quality accounting and financial reporting standards that promote public accountability and transparency and that lead to providing decision-useful information. But that need is particularly acute during periods of great financial stress such as state and local governments are currently experiencing. Government spending is being more closely scrutinized. Taxpayers are more vocal about their demands for improved accountability. The essentiality of relevant information is more crucial for decision making by both elected representatives and their constituents. In the months and years ahead, the GASB will continue to collaborate with, and respond to, the needs of our constituents to improve financial reporting in ways that recognize the unique and distinguishing characteristics of the government environment, and that will provide better information to support critical economic, social, and political decisions.

In closing, I want to thank my fellow Board members, our Trustees and the terrific members of the GASB and FAF staff as well as GASAC members for their outstanding contributions throughout 2008. I also want to express my gratitude to those who volunteer their time and expertise to serve on GASB task forces and advisory committees, and to all who respond to our due process documents and share their views. Your input is both critical for improving financial reporting and greatly appreciated.

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Mr. Attmore was the Deputy State Comptroller of New York State.



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Mr. Belsky is mayor of Highland Park, Illinois, and has worked in senior management with Fitch Ratings.



*William W. Holder*  
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Mr. Holder is the Ernst & Young Professor of Accounting at the University of Southern California.



*Jan I. Sylvis*  
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Ms. Sylvis is Chief of Accounts for the state of Tennessee.



*Marcia L. Taylor*  
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Ms. Taylor is the Assistant Municipal Manager of Mt. Lebanon, Pennsylvania.



*Richard C. Tracy*  
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Mr. Tracy is the retired Director of Audits for the city of Portland, Oregon.



*James M. Williams*  
(2012)  
Mr. Williams was a Partner and the National Director of Public Sector Accounting and Assurance Services with Ernst & Young LLP.

The mission of the Governmental Accounting Standards Board is to establish and improve standards of state and local governmental accounting and financial reporting that will result in useful information for users of financial reports and guide and educate the public, including issuers, auditors, and users of those financial reports.

**2008 GASB Statements**

Statement No. 53,  
*Accounting and Financial Reporting  
for Derivative Instruments*

**2008 GASB Concepts Statements**

GASB Concepts Statement No. 5,  
*Service Efforts and Accomplishments  
Reporting* (an amendment of GASB  
Concepts Statement No. 2)

**2008 GASB Implementation  
Guides**

Comprehensive Implementation  
Guide, 2008-2009

**2008 GASB Technical Bulletins**

Technical Bulletin 2008-1,  
*Determining the Annual Required  
Contribution Adjustment for  
Postemployment Benefits*

**2008 GASB Due Process  
Documents**

Exposure Draft, *Codification of  
Accounting and Financial Reporting  
Guidance Contained in the AICPA  
Statements on Auditing Standards*

Exposure Draft, *The Hierarchy of  
Generally Accepted Accounting  
Principles for State and Local  
Governments*

Exposure Draft, *Fund Balance  
Reporting and Governmental Fund  
Type Definitions*

Exposure Draft, *Service Efforts and  
Accomplishments Reporting* (an  
amendment of GASB Concepts  
Statement No. 2)

Request for Response, *Suggested  
Guidelines for Voluntary Reporting of  
SEA Performance Information*

**2008 GASB Plain-Language  
Publications**

Derivative Instruments: *A Plain-  
Language Summary of GASB  
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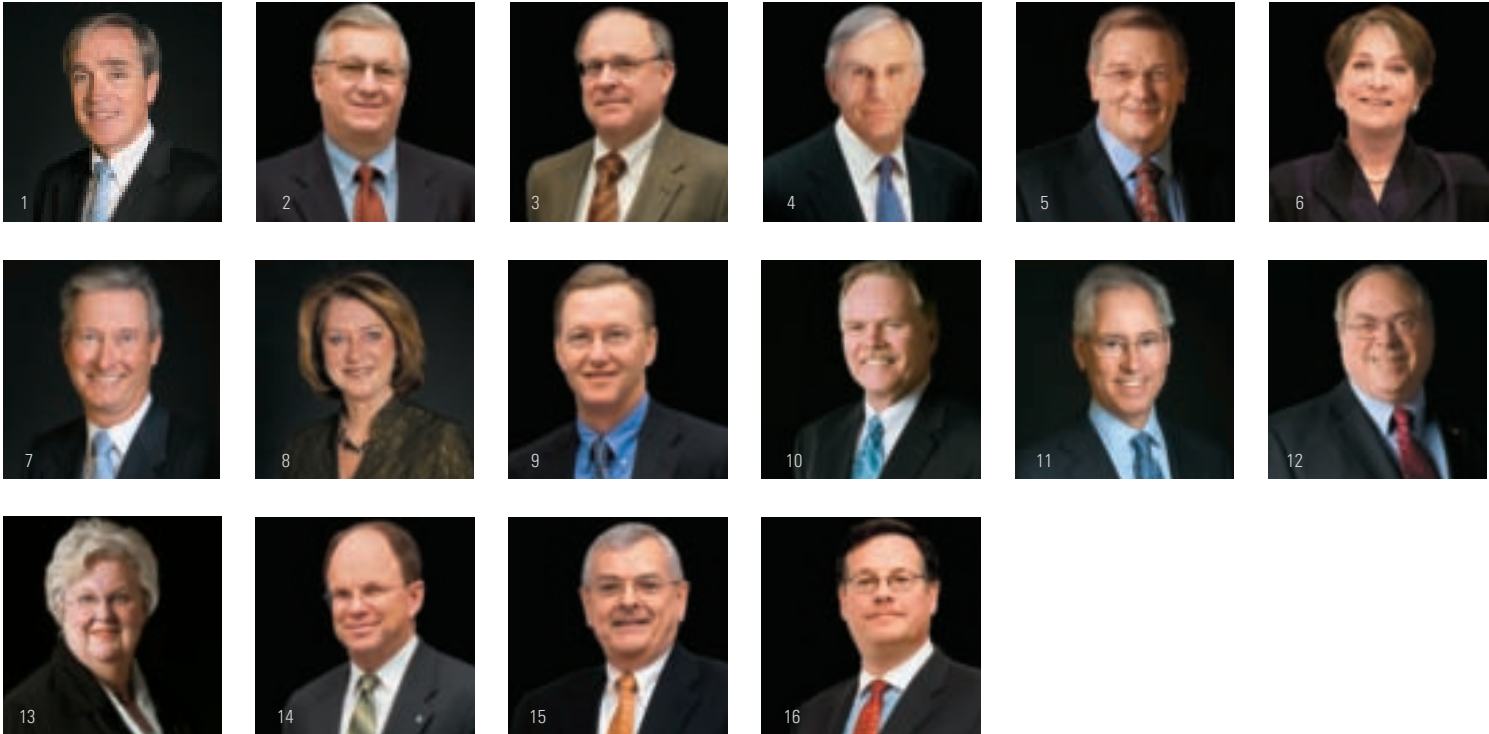
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The FAF's Board of Trustees is composed of highly experienced professionals from business, finance, academia, and government.

The FAF's Board of Trustees is composed of highly experienced professionals from business, finance, academia, and government. The Trustees are responsible for the oversight, administration, and finances of both the FASB and the GASB, as well as selecting the members of both Boards and their respective Advisory Councils, the FASAC and the GASAC.

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**Cynthia P. Eisenhauer (8)** is a consultant supporting state and local governments in strategic planning and budgeting, as well as an Adjunct Professor at Iowa State University in its Master of Public Administration Program. Previously, she served as Chief of Staff for Iowa Governor Thomas Vilsack from 2004 to 2007. Ms. Eisenhauer joined the FAF Board of Trustees in January 2009, filling a seat designated for a Governmental Trustee, and serves on the FAF's Development and Finance and Compensation Committees.

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**John J. Perrell III (12)** is the retired Vice President – Global Policies for American Express Company. Mr. Perrell joined the Board of Trustees in 2008 and was nominated by the Institute of Management Accountants. He serves on the FAF's Appointments and Evaluations, Corporate Governance, and Standard-Setting Process Oversight Advisory Committees.

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\* Through 2007, these organiza-  
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\*\* These organizations provide  
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# Financial Information

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## **2008 Summary**

The mission of the Financial Accounting Foundation and its standard-setting boards, the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB), is to establish, maintain, and improve standards of financial accounting and reporting for private sector, not-for-profit, and state and local governmental entities and advance and contribute to the education of users, preparers, and auditors of financial statements. The Foundation is committed to the development of high-quality financial accounting and reporting standards that help foster and protect investor confidence, facilitate efficient operation of capital markets, and enable citizens to determine the ability of their state and local governments to fulfill public policy missions. The Foundation is responsible for the oversight, administration, and finances of the FASB, the GASB, and their advisory councils – the Financial Accounting Standards Advisory Council (FASAC) and the Governmental Accounting Standards Advisory Council (GASAC).

The Foundation obtains its funding from accounting support fees pursuant to the Sarbanes-Oxley Act of 2002 (the Act), subscription and publication revenues, and voluntary cash contributions in support of the GASB. In fulfilling its mission, a fundamental principle of the Foundation's operations is to obtain and deploy prudently the resources needed for the operation of the Foundation, the standard-setting Boards, and the advisory councils, all in a transparent and accountable manner.

In 2008, the Foundation substantially revised its corporate governance structure to further its efficiency, effectiveness, and independence; strengthen the Trustees' oversight of the due process practices and procedures of the FASB and the GASB; and further engage investors and other users of financial statements in the standard-setting process. Some of these changes included streamlining the agenda-setting processes of the standards Boards and reducing the size of the FASB from seven to five members. The Foundation also revised its Trustee nomination and election procedures to foster greater participation by interested capital market participants and other financial statement users in nominating Trustee candidates and greater independence of the Foundation in appointing its Board of Trustees.

The Foundation also took steps to improve its operating efficiencies in 2008. After completing an extensive review of the administrative functions of the Foundation that support the operations of the FASB and the GASB, in December 2008, the Foundation implemented a reduction in force, outsourced certain administrative functions, and restructured certain departments, all of which are expected to result in operating efficiencies and cost savings over time. In addition, following a comprehensive review of the Foundation's pension plans, the Board of Trustees approved several plan amendments to better position the Foundation to meet its future retirement obligations.

## **Financial Results**

The Foundation's financial statements are presented in accordance with FASB Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. The following is a discussion of the key highlights of the activities and financial position of the Foundation as presented in the accompanying audited financial statements.

### **Overview**

- Net operating revenue increased \$2.0 million to \$35.5 million in 2008, reflecting a \$1.0 million increase in net subscriptions and publications revenue, primarily from lower costs for the FASB Codification project, and a \$1.2 million increase in accounting support fees.
- Total program and support expenses increased \$1.1 million to \$34.9 million. Program expenses represent approximately 72% of total expenses in 2008, consistent with the prior year.
- The Foundation ended the year with net operating revenues exceeding expenses by \$549,000, compared to a \$410,000 deficit in 2007.
- Net assets decreased to \$52.9 million in 2008 from \$58.2 million, a \$5.3 million decrease primarily related to the recognition of non-operating pension related changes.

### **Statements of Activities**

#### *Accounting Support Fees*

The Foundation's most significant source of revenue consists of accounting support fees assessed against issuers of securities, as those issuers are defined in the Act. Accounting support fees fund the expenses and other cash requirements for the FASB's standard-setting activities that are included in the Foundation's operating and capital budget for each year (the recoverable expenses). Accounting support fees for 2008 and 2007 totaled \$23.7 million and \$22.5 million, respectively. The fees are allocated to equity and investment company issuers registered with the U.S. Securities and Exchange Commission (SEC) based on their relative average monthly U.S. equity market capitalization. Equity issuers with an average market capitalization of over \$25 million, and investment company issuers with an average market capitalization or net asset value over \$250 million, are assessed a share of the accounting support fees. The Foundation has designated the Public Company Accounting Oversight Board (the PCAOB) as its collection agent for the invoicing and collecting of accounting support fees. The Foundation paid approximately \$200,000 in both years to the PCAOB for this service.

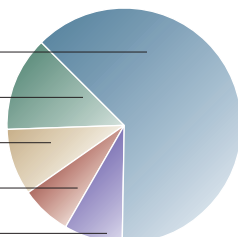
### Contributions

Contributions consist almost entirely of GASB contributions. Sources of these contributions are illustrated below.

*Dollars in thousands* 2008

Total \$1,601

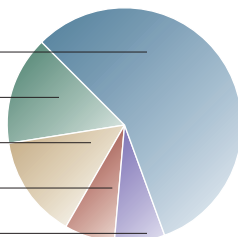
State Governments	63%	\$ 1,000
Local Governments	13%	\$ 210
Bond Fee	9%	\$ 149
Other GASB	7%	\$ 110
Contributed Services	8%	\$ 132



*Dollars in thousands* 2007

Total \$1,763

State Governments	57%	\$ 1,000
Local Governments	15%	\$ 263
Bond Fee	14%	\$ 249
Other GASB	7%	\$ 125
Contributed Services	7%	\$ 126



State governments contributed \$1 million in both 2008 and 2007, representing the largest portion of GASB contributions. The overall decrease in contributions was due primarily to the voluntary Municipal Bond Fee Assessment Program, which decreased to \$149,000 in 2008 from \$249,000 in 2007. The bond fee was payable on a voluntary basis by municipal security issuers and collected by underwriting members of the Securities Industry and Financial Markets Association. The three-year trial period for this program concluded on June 30, 2007, with the final payments received in 2008.

### Subscriptions and Publications

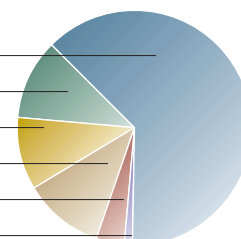
Subscription and publication revenues in 2008 and 2007 are presented by product line for FASB and GASB in the charts below, although all such revenues belong to the Foundation and are presented in the statements of activities on a combined basis.

#### FASB Publications

*Dollars in thousands* 2008

Total \$14,102

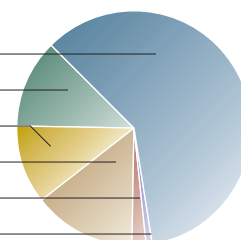
Electronic License Fees	63%	\$ 8,953
Subscription Plans	11%	\$ 1,532
Loose-Leaf Services	10%	\$ 1,389
Bound Editions	11%	\$ 1,568
Final Documents	4%	\$ 531
Other	1%	\$ 129



*Dollars in thousands* 2007

Total \$14,557

Electronic License Fees	60%	\$ 8,795
Subscription Plans	12%	\$ 1,736
Loose-Leaf Services	11%	\$ 1,619
Bound Editions	14%	\$ 2,059
Final Documents	2%	\$ 227
Other	1%	\$ 121



FASB subscription and publication revenues totaled approximately \$14.1 million and \$14.6 million in 2008 and 2007, respectively. Electronic license fees continue to grow as a component of total FASB revenue, increasing to almost \$9 million in 2008 from approximately \$8.8 million in 2007, reflecting higher sales volume in the commercial publisher marketplace. Sales of final documents, primarily Statements and Interpretations, increased to \$531,000 in 2008 from \$227,000 in 2007, reflecting the timing of issuance of final Statements year to year. As more and more users of FASB publications are moving to electronic media as their primary source of accounting research and resource material, sales of hard-copy subscriptions and publications, including the loose-leaf services and the annual bound editions, continued a downward trend in 2008.

## Management's Discussion and Analysis of Results of Operations and Financial Condition

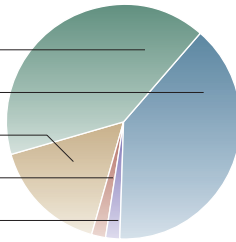
### GASB Publications

Dollars in thousands

2008

Total \$2,182

Subscription Plans	41%	\$ 872
Electronic License Fees	39%	\$ 859
Bound Editions	16%	\$ 359
Final Documents	2%	\$ 45
Other	2%	\$ 47

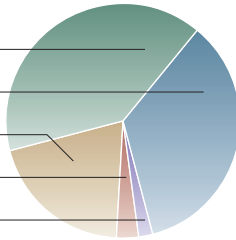


Dollars in thousands

2007

Total \$2,094

Subscription Plans	40%	\$ 833
Electronic License Fees	35%	\$ 733
Bound Editions	20%	\$ 419
Final Documents	3%	\$ 59
Other	2%	\$ 50



GASB subscription and publication revenues increased 5 percent to approximately \$2.2 million in 2008. Electronic license fees which increased \$126,000 (or approximately 17%) to \$859,000 in 2008 were the largest driver of the change. Sales of annual bound editions decreased in 2008, reflecting the decreased use of non-electronic formats.

### Direct Cost of Subscriptions and Publications

Foundation subscription and publication revenues are reported net of direct costs in the accompanying statements of activities. Direct costs of subscriptions and publications decreased approximately 18% to \$6.1 million in 2008 from \$7.5 million in 2007. The decrease primarily relates to the FASB Codification project, which moved from an active development stage to a one-year verification stage in early 2008, resulting in lower expenses.

### Program expenses

The Foundation's program expenses totaled \$25 million in 2008 compared to \$24.2 million in 2007. Program expenses include salaries, benefits, occupancy, professional fees, and certain other operating expenses for the members and research staffs of the FASB and the GASB and their advisory councils, as well as expenses for the library services of the Foundation that support the standard-setting Boards. Other operating expenses include domestic and international travel for Board members and staff, costs for holding advisory group and other meetings, library subscriptions and other reference materials, and other miscellaneous expenses.

Given the service-driven nature of the Foundation and the significance of our personnel to achieving the missions of the FASB and the GASB, salaries and employee benefits comprise over 85% of the Foundation's program expenditures. In total, salaries remained fairly flat from year to year. FASB salaries decreased \$160,000, reflecting the mid-year change in the size of the FASB Board from seven members to five and several vacant FASB technical staff positions, offset partially by general salary increases. GASB salaries increased \$350,000, primarily due to filling previously vacant technical staff positions during 2008 as well as general salary increases.

### Support expenses

The Foundation's support expenses totaled \$9.9 million in 2008 compared to approximately \$9.6 million in 2007. Support expenses include costs for the accounting and finance, human resources, facilities management, technology and information systems, communications, government relations, legal, development, and general administrative operating assistance provided by the Foundation to its standard-setting boards and their advisory councils. Support expenses also include amounts related to the Foundation's Board of Trustees' oversight responsibilities. Other operating expenses include travel, meetings, subscriptions, office supplies, and other miscellaneous expenses.

Salaries and employee benefits for Foundation support services remained fairly flat year to year, reflecting a smaller staff size offset by general salary increases. Professional fees, which include search firm, legal, accounting fees, and other administrative consultants, increased approximately \$300,000 primarily due to higher recruiting and placement fees for the Foundation chairman and Trustees.

### Pension-related changes not reflected in operating expenses

In 2008, the Foundation's assets in its defined benefit pension plans were negatively impacted by the turbulent financial market. As a result of the decrease in the value of plan assets, offset in part by amendments to the plans, the Foundation recorded a non-operating charge against net assets of \$5.4 million for 2008 compared to a charge of \$500,000 for 2007. Effective December 31, 2008, the Foundation implemented several changes to its pension plans to reduce the Foundation's long-term defined benefit funding and investment risk and to better position the Foundation to meet its future retirement benefit obligations. As more fully discussed in Note 5 to the financial statements, the Foundation is phasing out benefit accruals under the defined benefit plans by December 31, 2013.

*Investment income and losses*

The Foundation's Reserve Fund investments, held primarily in money market and fixed income mutual funds, experienced net losses of \$508,000 in 2008 relating primarily to the fixed income fund, compared to a gain in 2007 of \$2.7 million. The Supplemental Pension Plan assets, invested approximately 80% in equity and 20% in fixed income mutual funds, experienced net losses of \$188,000 in 2008 compared to net gains in 2007 of \$41,000, reflecting the negative market conditions. The Foundation's short-term investments, invested entirely in money market mutual funds in 2008, had a net gain of \$279,000 compared to a net loss of \$1.1 million in 2007. In 2007, short-term investments included holdings in a historically stable fixed income mutual fund that experienced a sharp decline in value. The Foundation liquidated its position in that fund in the third quarter of 2007.

**Statements of Financial Position***Cash, cash equivalents, and short-term investments*

Cash and cash equivalents include demand deposits with financial institutions and short-term, highly liquid investments. Short-term investments include money market mutual funds. Cash and short-term investments totaled approximately \$9.8 million and \$7.3 million as of December 31, 2008 and 2007, respectively.

*Reserve Fund investments*

The Reserve Fund is intended to (1) provide the Foundation, the FASB, and the GASB with sufficient reserves to fund expenditures not funded by accounting support fees or subscription and publication revenues; (2) operate the Foundation, the FASB, and the GASB during any temporary or permanent funding transition periods; and (3) fund any other unforeseen contingencies. The Foundation's Trustees have adopted a policy establishing a targeted year-end Reserve Fund balance equal to one year of budgeted expenses for the entire organization plus a working capital reserve equal to one quarter of net operating expenses for the entire organization (collectively, the target Reserve Fund). To the extent the projected year-end Reserve Fund balance, which is net of short-term investments, exceeds the year-end target Reserve Fund, the excess is made available to fund the FASB recoverable expenses for the budget year that otherwise would be funded by accounting support fees.

Reserve Fund investments are unrestricted assets of the Foundation and totaled \$51.0 million and \$54.6 million as of December 31, 2008 and 2007, respectively. The Reserve Fund's assets were invested in a combination of money market mutual fund and short-term, high credit quality, fixed-income mutual funds. Reserve Fund investments are maintained in accordance with investment policies and guidelines established for the Fund by the Trustees' Finance and Compensation Committee. In 2008, a total of \$3.2 million was transferred from the Reserve Fund to fund operations.

*Accrued pension and postretirement health care costs*

Accrued pension costs increased to \$3.4 million in 2008 from \$904,000 in 2007, and accrued postretirement health care costs increased to \$2.4 million in 2008 from \$1.2 million in 2007. The increase in these liabilities resulted from an increase in the underfunded status of these plans, which were affected by the decrease in plan assets due to declining market conditions, offset in part by the effect of pension plan amendments. The components of the pension and postretirement health care liabilities and assets are described more fully in Note 5 to the accompanying financial statements.

*Accrued rent expense*

Accrued rent expense increased to \$1.8 million in 2008 from \$1.1 million in 2007, primarily relating to a retrofit allowance payment of approximately \$1 million received in 2008 from the landlord. This payment, along with other retrofit allowances, abatements, and escalated rental payments are being amortized over the life of the lease.

**Outlook for 2009**

During these challenging economic times, the Foundation will continue to review its operations, ensuring that its resources continue to be managed prudently in fulfilling the important mission of the FASB and the GASB. In 2009, the *FASB Accounting Standards Codification*<sup>™</sup> is expected to officially become the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP), superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF), and related literature. In this respect, the nature and pricing structure of the Foundation's publication and subscription product offerings will change, which could have a material impact on revenues in 2009. Foundation management will continue to monitor the impact of this change on revenues during this important transition.

<i>Years Ended December 31 (dollars in thousands)</i>	2008	2007
<b>Net operating revenue:</b>		
Accounting support fees (Note 2)	\$ 23,710	\$ 22,514
Contributions:		
FAF (Contributed Services)	110	126
GASB	1,491	1,637
	1,601	1,763
Subscriptions and publications (Note 3)	16,284	16,651
Less - Direct costs of subscriptions and publications (Note 3)	6,133	7,520
Net subscriptions and publications	10,151	9,131
<b>Total net operating revenue</b>	<b>35,462</b>	<b>33,408</b>
<b>Program expenses:</b>		
Salaries and wages:		
FASB	14,299	14,459
GASB	3,456	3,108
Total salaries and wages	17,755	17,567
Employee benefits (Note 5)	4,010	3,921
Occupancy and equipment expenses (Note 7)	1,082	1,047
Professional fees	544	385
Other operating expenses	1,577	1,326
<b>Total program expenses</b>	<b>24,968</b>	<b>24,246</b>
<b>Support expenses:</b>		
Salaries and wages	3,464	3,478
Employee benefits (Note 5)	1,021	984
Occupancy and equipment expenses (Note 7)	803	742
Depreciation and amortization	466	435
Professional fees	2,960	2,638
Other operating expenses	1,231	1,295
<b>Total support expenses</b>	<b>9,945</b>	<b>9,572</b>
Total program and support expenses	34,913	33,818
<b>Net operating revenue greater than (less than) expenses</b>	<b>549</b>	<b>(410)</b>
Short-term investment income (losses) (Note 4)	279	(1,096)
Supplemental Pension Plan investment (losses) income	(188)	41
Reserve Fund investment (losses) income (Note 4)	(508)	2,682
Pension-related changes not reflected in operating expenses (Note 5)	(5,446)	(472)
<b>(Decrease) increase in net assets</b>	<b>(5,314)</b>	<b>745</b>
Net assets at beginning of year	58,241	57,496
Net assets at end of year	\$ 52,927	\$ 58,241

See accompanying notes to these financial statements.

<i>As of December 31 (dollars in thousands)</i>	2008	2007
<b>Current Assets:</b>		
Cash and equivalents	\$ 2,741	\$ 2,626
Short-term investments (Note 4)	7,028	4,635
Pledged contributions receivable	25	281
Subscription, publication, and all other receivables (net of allowance for doubtful accounts of \$94 and \$74)	2,431	1,864
Inventories	172	169
Prepaid expenses and all other current assets	288	178
<b>Total current assets</b>	<b>12,685</b>	<b>9,753</b>
<b>Noncurrent Assets:</b>		
Reserve Fund investments (Note 4)	51,008	54,633
Supplemental Pension Plan investments (Note 5)	373	680
Furniture, equipment, and leasehold improvements, net (Note 6)	2,394	1,938
Prepaid pension costs (Note 5)	—	593
<b>Total noncurrent assets</b>	<b>53,775</b>	<b>57,844</b>
<b>Total assets</b>	<b>\$ 66,460</b>	<b>\$ 67,597</b>
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	\$ 1,692	\$ 1,330
Accrued payroll and related benefits	724	696
Unearned publication and other deferred revenues	3,495	3,898
<b>Total current liabilities</b>	<b>5,911</b>	<b>5,924</b>
<b>Noncurrent Liabilities:</b>		
Accrued pension costs (Note 5)	3,407	904
Accrued postretirement health care costs (Note 5)	2,389	1,245
Accrued rent expense (Note 7)	1,786	1,142
Unearned publication and other deferred revenues - long-term	40	141
<b>Total noncurrent liabilities</b>	<b>7,622</b>	<b>3,432</b>
<b>Total liabilities</b>	<b>13,533</b>	<b>9,356</b>
<b>Net Assets - unrestricted</b>	<b>52,927</b>	<b>58,241</b>
<b>Total liabilities and net assets</b>	<b>\$ 66,460</b>	<b>\$ 67,597</b>

See accompanying notes to these financial statements.

<i>Years Ended December 31 (dollars in thousands)</i>	2008	2007
<b>Cash flows from operating activities:</b>		
Cash received from contributors	\$ 1,746	\$ 1,785
Cash received from publication sales	15,236	17,776
Cash received from accounting support fees	23,688	22,519
Cash received from office lease agreement	985	—
Cash received from interest and dividends on investments	2,237	3,147
Cash paid to vendors, employees, and benefit plans	(41,321)	(41,484)
Net cash provided by operating activities	2,571	3,743
<b>Cash flows from investing activities:</b>		
Proceeds from sales of Reserve Fund investments	38,433	34,843
Purchases of Reserve Fund investments	(37,220)	(37,538)
Proceeds from sales of short-term investments	27,365	40,202
Purchases of short-term investments	(29,758)	(38,971)
Proceeds from sales of Supplemental Pension Plan investments	184	97
Purchases of Supplemental Pension Plan investments	(77)	(138)
Purchases of furniture, equipment, and leasehold improvements	(1,383)	(1,475)
Net cash used in investing activities	(2,456)	(2,980)
Net increase in cash and equivalents	115	763
Cash and equivalents at beginning of period	2,626	1,863
Cash and equivalents at end of period	\$ 2,741	\$ 2,626
<b>Reconciliation of (decrease) increase in net assets to net cash provided by operating activities:</b>		
(Decrease) increase in net assets for the period	\$ (5,314)	\$ 745
Adjustments required to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	927	746
Net realized and unrealized losses on short-term investments	—	1,565
Net realized and unrealized losses (gains) on Reserve Fund investments	2,412	(77)
Net realized and unrealized losses (gains) on Supplemental Pension Plan investments	200	(4)
Provision for losses on accounts receivable	20	12
(Increase) decrease in contribution, subscription, and all other receivables	(331)	1,442
Increase in inventories	(3)	(17)
Decrease in all prepaid costs	483	100
Increase (decrease) in accounts payable and employee benefit accruals	4,037	(285)
Decrease in unearned publication and other deferred revenues	(504)	(176)
Increase (decrease) in accrued rent expense	644	(308)
Total adjustments	7,885	2,998
Net cash provided by operating activities	\$ 2,571	\$ 3,743
<b>Supplemental Information</b>		
<b>Noncash charges (credits) included in the Statements of Activities:</b>		
Pension-related changes not reflected in operating expenses	\$ 5,446	\$ 472

See accompanying notes to these financial statements.

## 1. Nature of Activities and Summary of Significant Accounting Policies

### Activities

The Financial Accounting Foundation (the Foundation), organized in 1972, is an independent, private-sector non stock corporation which is responsible for the oversight, administration, finances, and selection of the members of the following Boards and Councils:

- The Financial Accounting Standards Board (FASB), which establishes standards of financial accounting and reporting for private-sector enterprises, and the Financial Accounting Standards Advisory Council.
- 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.

The Foundation is 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. The Foundation presently obtains its funding from accounting support fees pursuant to the Sarbanes-Oxley Act of 2002 (the Act), subscription and publication revenues, and voluntary cash contributions in support of the GASB.

### 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 and are presented pursuant to FASB Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations* (SFAS No.117). The statements of activities are based on the concept that standard setting is the sole program of the Foundation. These statements set forth separately, where appropriate, revenues, costs of sales, and certain program expenses of the Standards Boards, giving recognition to their distinct responsibilities as described in the Foundation'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 Standards Boards and Councils, as well as costs for the library activities of the Foundation, which support the

Boards. Additional Foundation services for accounting and finance, human resources, facilities management, technology and information systems, communications, government relations, legal, development, and general administrative operating assistance have been reflected as support expenses in the accompanying statements of activities. Fund-raising expenses included in these statements totaled approximately \$93,000 in 2008 and \$148,000 in 2007.

Under SFAS No.117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. None of the net assets of the Foundation are subject to any donor-imposed restrictions as defined by SFAS No. 117, and therefore they have all been classified as unrestricted.

The preparation of financial statements requires management to formulate estimates and assumptions that may affect the reported amounts of assets and liabilities at the dates of those statements and revenues and expenses for the reporting periods. Accordingly, ultimate results could differ from those estimates.

#### Accounting Support Fees

The Foundation recognizes accounting support fee revenue in the year for which those accounting support fees have been assessed to issuers as prescribed by the Act. See Note 2 for further information regarding accounting support fees.

#### Contributions

The Foundation has reported all contributions as an increase in unrestricted net assets. Many individuals contribute significant amounts of time to the activities of the Foundation, the Standards Boards, and their Advisory Councils without being compensated. These individuals include certain members of the Foundation's Board of Trustees and participants of the following groups: FASAC and GASAC, 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 sending comment letters, appearing at public hearings and roundtable meetings, and taking part in field visits. Members of the Board of Trustees are eligible for compensation for their services, with each having the ability to waive such compensation. The accompanying financial statements reflect the value of waived Trustee compensation, which meets the recognition criteria for contributed services of SFAS No. 116, *Accounting for Contributions Received and Contributions Made* (SFAS No. 116). All of the other services described above have not been deemed to meet the recognition criteria of that Statement. The value of contributed services for the Foundation recognized in the accompanying statements of activities was approximately \$110,000 and \$126,000 in 2008 and 2007, respectively.

*Subscription Plans, Loose-Leaf Subscription Services, and Electronic License Agreements*

Revenues from these 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 expenses as incurred.

*FASB Accounting Standards Codification*

Costs of subscription and publication revenues presented in the accompanying statements of activities include expenses attributable to the development of the *FASB Accounting Standards Codification*<sup>TM</sup>, a comprehensive and integrated database encompassing all authoritative nongovernmental U.S. GAAP literature. These expenses include depreciation and amortization of capital asset purchases made to support the project and an allocable share of Foundation administrative costs.

*Cash and Equivalents*

For financial statement purposes, the Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The carrying value of these investments approximates fair value due to the nature of the investments and the maturity period. Cash and equivalents do not include any money market mutual fund investments included in the Reserve Fund portfolio at December 31, 2008 and 2007.

*Investments*

In 2008, the Foundation adopted SFAS No. 157, *Fair Value Measurements* (SFAS No.157). SFAS No. 157 establishes a hierarchy that prioritizes the inputs used to measure fair value into three broad levels. All of the Foundation's investments are measured using Level 1 inputs, which are defined as quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. In 2007, the Foundation's investments are reported at fair value, with amounts determined according to market values reported by the custodians and trustees.

*Inventories*

Certain publications and other related items held for resale are included in inventories and carried at the lower of cost or market, with cost determined by the first-in, first-out method.

*Employee Benefit Plans*

The Foundation sponsors a postretirement health care plan and two defined benefit pension plans. See Note 5 for a full description of these plans.

SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS No.158), requires sponsors of single-employer defined benefit pension or other postretirement plans to recognize the funded status of those plans as an asset or liability in the statement of financial position, and to recognize changes in the funded status in the statement of financial position in the year in which the changes occur. In the case of a not-for-profit organization (such as the Foundation), those changes are in unrestricted net assets. Information with respect to the funded positions of each of the Foundation's pension and other postretirement plans at December 31, 2008 and 2007 can be found in the accompanying statements of financial position.

In 2008, the Foundation early adopted the provisions of FASB Staff Position No. 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, which requires certain disclosures with respect to the plan assets of defined benefit plans and postretirement plans.

*Furniture, Equipment, and Leasehold Improvements*

Furniture, equipment, and leasehold improvements are reported in the financial statements at cost, less accumulated depreciation and amortization determined under 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.

*Reclassifications*

Certain reclassifications have been made to prior year amounts to conform to the current year's presentation.

## 2. Accounting Support Fees

The 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 Act. The accounting support fees provide funding for expenses associated with FASB's standard-setting activities as identified in the Foundation's operating and capital budget for each calendar year.

The accounting support fees recognized and related recoverable expenses incurred for the past two years are as follows (dollars in thousands):

<i>Year Ended December 31</i>	2008	2007
<b>Accounting Support Fees:</b>		
For U.S.-based entities	\$22,759	\$21,632
For non-U.S.-based entities	951	882
	23,710	22,514
<b>FASB Program expenses:</b>		
Salaries and wages	14,299	14,459
Employee benefits	3,169	3,151
Occupancy and equipment expenses	848	823
Professional fees	457	312
Other operating expenses	1,314	1,095
<b>Total FASB Program expenses</b>	20,087	19,840
<b>FASB Support expenses:</b>		
Salaries and wages	2,860	2,590
Employee benefits	835	752
Occupancy and equipment expenses	643	592
Depreciation and amortization	433	380
Professional fees	1,822	983
Other operating expenses	834	802
<b>Total FASB Support expenses</b>	7,427	6,099
<b>Total FASB recoverable expenses</b>	\$27,514	\$25,939
<b>FASB recoverable expenses in excess of Accounting Support Fees</b>	\$ (3,804)	\$ (3,425)

The recoverable expenses described above include the FASB's allocable share of Foundation program and support expenses. Foundation expenses are incurred for the common benefits of the FASB, GASB, and the FASB Codification project.

The amounts by which total FASB recoverable expenses exceed accounting support fees are funded from Reserve Fund balances. Any differences between FASB recoverable expenses and the amount of accounting support fees recognized as revenues for an applicable calendar year (to the extent that the differences were not financed from Reserve Fund balances) would be incorporated into the calculation of accounting support fees in subsequent years. The accounting support fee calculations also reflect adjustments for noncash expenses and certain cash requirements not reflected in the statements of activities. The amount of accounting support fees is established annually based upon the Foundation's budgeted recoverable expenses for the FASB and any projected Reserve Fund balance for that budget year deemed available to fund those expenses. The accounting support fees are also subject to review by the Securities and Exchange Commission (SEC) each year.

## 3. Subscriptions and Publications

Subscription and publication operating revenues and costs consist of the following (dollars in thousands):

<i>Year Ended December 31</i>	2008	2007
<b>Subscription and Publication Revenues:</b>		
FASB Publications	\$14,102	\$14,557
GASB Publications	2,182	2,094
	\$16,284	\$16,651
<b>Direct Costs:</b>		
FASB Publications	\$ 771	\$ 913
FASB Codification project	2,836	4,290
GASB Publications	223	194
Foundation administrative support	2,303	2,123
	\$ 6,133	\$ 7,520
<b>Net Subscription and Publication Revenues:</b>		
FASB Publications	\$13,331	\$13,644
FASB Codification project	(2,836)	(4,290)
GASB Publications	1,959	1,900
Foundation administrative support	(2,303)	(2,123)
	\$10,151	\$ 9,131

**4. Investments and Investment Income and Losses****Investments:**

The following table presents investments measured at fair value (dollars in thousands):

<i>At December 31</i>	2008 (All Level 1)	2007
<b>Short-term:</b>		
Money market mutual funds	\$ 7,028	\$ 4,635
<b>Reserve Fund:</b>		
Fixed income mutual funds	\$22,224	\$27,345
Cash and money market funds	28,784	27,288
	\$51,008	\$54,633

**Investment Income (Losses)** (dollars in thousands):

<i>Year Ended December 31</i>	2008	2007
<b>Short-Term:</b>		
Interest and dividends	\$ 279	\$ 469
Net realized and unrealized losses	—	(1,565)
<b>Total Short-Term Investment Income (Losses)</b>	<b>\$ 279</b>	<b>\$ (1,096)</b>
<b>Reserve Fund:</b>		
Interest and dividends	\$ 1,943	\$ 2,641
Net realized and unrealized gains (losses)	(2,412)	77
	(469)	2,718
Less: Management fees	(39)	(36)
<b>Total Reserve Fund Investment Income (Losses)</b>	<b>\$ (508)</b>	<b>\$ 2,682</b>

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

<i>Year Ended December 31</i>	2008	2007
Fund balance, beginning of year	\$ 54,633	\$ 51,861
Transfers (to) from operations, net	(2,000)	677
Transfers for retirement benefit plans	(1,117)	(587)
Investment income (losses)	(508)	2,682
Fund balance, end of year	\$ 51,008	\$ 54,633

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

**5. Employee Benefits**

Employee benefits expense consists principally of employer payroll taxes, health care benefits for active and retired employees, and pension costs. The Foundation uses a December 31 actuarial measurement date to determine pension and postretirement health coverage obligations under its benefit plans and to value plan assets.

**Pension Plans**

The Foundation sponsors a 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). Employees do not contribute to the defined benefit plans.

Employee benefits expense in the accompanying statements of activities includes \$1,364,000 and \$1,477,000 for 2008 and 2007, respectively, related to the defined contribution plan. Effective January 1, 2009, employer contributions to the plan vest after 1.5 years of service and are based on the employee's earnings level, with incremental increases based on the employee's age. Prior to January 1, 2009, employer contributions to the plan were based solely on the employee's earnings level and vested after three years of service for contributions made on or after January 1, 2007, and after five years of service for contributions made prior to January 1, 2007.

The defined benefit plans were closed to new hires effective January 1, 2008. Subject to certain plan amendments effected in 2008, the defined benefit plans operate as floor offset plans such that pension benefits are payable under those plans only to the extent that the employee's target annual annuity retirement benefit (equal to 2 percent of average final compensation for each year of service up to 20 years) is not fully met by the defined contribution plan. As of December 31, 2008, accruals under the floor offset formula of the defined benefit plans have been frozen. The frozen benefit will be adjusted for increases in average final compensation through no later than December 31, 2013, and participating employees with fewer than 20 years of service as of December 31, 2008, are eligible to participate in a new defined benefit accrual up through no later than December 31, 2013, equal to 1 percent of average final compensation for each year of service after 2008 up to the 20-year service limit.

### Postretirement Health Coverage Plan

The Foundation sponsors a postretirement health coverage plan (Postretirement Plan) for all eligible employees. Employees retiring after reaching age 55, and completing at least 10 years of service, who participate in the Foundation's health care plan at the time of retirement receive a one-time opportunity to elect continued coverage under the health care plan then in effect for active employees. Effective June 1, 2007, the plan was amended to provide a reduced health benefit to participating employees retiring after reaching age 60 and completing at least 5, but less than 10, years of service. The cost of coverage beyond the retirement date is shared between the Foundation and the retiree, with the Foundation responsible for no more than its cost immediately prior to the employee's retirement. Premium increases after the retirement date are the responsibility of the retiree. Decreases in premiums after the retirement date would first reduce the retiree's cost, and then the Foundation's cost. The Foundation funds retiree health care benefits through a Grantor Trust.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Prescription Drug Act) established a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Through 2008, the accumulated postretirement benefit obligation and net periodic postretirement health coverage expense included in the financial statements do not reflect any effects of the federal prescription drug subsidy provided by the Prescription Drug Act because the Foundation determined that applying for the subsidy would not be cost effective. Late in 2008, the Foundation determined that the potential prescription drug subsidy for 2009 calendar claims could exceed the recurring administrative and professional costs associated with participation in the program, and the Foundation processed its first prescription drug subsidy application. Any potential subsidy will not be received until 2010 for 2009 calendar-year claims.

### Assumptions

The principal actuarial assumptions used for the past two years to determine costs and benefit obligations for the defined benefit pension and the postretirement health coverage plans are as follows (not all assumptions are applicable to all plans):

<i>At December 31</i>	2008	2007
Discount rate (to determine benefit obligations)	6.25%	6.25%
Discount rate (to determine net periodic benefit expense for the year)	6.25%	5.75%
Rate of increase in compensation levels	4.5%	4.5%
Long-term rate of return on plan assets (to determine benefit obligations)	7.5%	8.0%
Long-term rate of return on plan assets (to determine net periodic expense for the year)	8.0%	8.0%
Health care cost trend rate for following year	9.0%	9.5%

The current health care cost trend rate assumption reflects market conditions, historical health care inflation, future expectations of that inflation, and the Foundation's most recent cost experience. The assumed health care rate declines gradually to an ultimate level of 5.0% after 2017.

All of the principal actuarial assumptions are reviewed by the Audit Committee and the Finance and Compensation Committee of the Board of Trustees periodically and adjusted as appropriate. The expected long-term rate of return on plan assets assumptions was adopted based upon the assessment of several factors. These factors included a review of historical returns of the Employees' Pension Plan's assets over several years, expectations and capabilities of future market performance, discussions and meetings with the Foundation's actuarial consultants, and reviews of survey data prepared by those consultants.

### Plan Assets

The Finance and Compensation Committee of the Board of Trustees has adopted investment policies and guidelines for investments held in the Foundation's Employees' Pension Plan and Postretirement Health Coverage Plan. The Foundation's overall investment strategy is to maintain an appropriate balance of actively managed and indexed investments, with the objective of optimizing longer-term returns while maintaining a high standard of portfolio quality and achieving proper diversification. The Committee has the responsibility to determine that the assets under the defined benefit pension and postretirement plans are properly diversified. The Committee also has the authority to retain, as necessary, investment managers and advisors. The Committee has retained a professional investment manager for the assets of the FAF employee benefit plans who maintains complete discretion over investment decisions, within asset allocation ranges recommended by the Committee. The Committee and the investment manager meet at least once annually.

The Committee has recommended asset allocation ranges to the investment manager of 65 to 80 percent of the portfolio's market value in equity investments (which includes a 15 to 25 percent range for international stocks of the equity holdings) and 20 to 35 percent in fixed income investments. All securities included in the Plans' investments are required to be marketable. Several types of investments are prohibited without the express consent of the Committee. The policies provide for a minimum investment quality rating for fixed income securities and certain other restrictions on investment concentrations.

The investment manager is prohibited from purchasing securities on margin or otherwise leveraging the portfolio, except as provided for in a prospectus document in the case of mutual or commingled funds. Mutual and commingled fund investments are permitted provided that certain requirements are met. The assets under the defined benefit pension and postretirement plans were invested in mutual funds at December 31, 2008, 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 in accordance with SFAS No. 157, as follows (dollars in thousands):

<i>Fair Value of Plan Assets at December 31, 2008 (all Level 1)</i>	<i>Employees' Pension Plan</i>	<i>Postretirement Plan</i>
Mutual Funds:		
U.S. equity funds (a)	\$ 6,045	\$2,465
International equity index fund (b)	1,673	674
Bond fund (c)	2,233	894
Balanced fund (d)	1,090	450
Cash held by investment manager	42	—
<b>Total</b>	<b>\$11,083</b>	<b>\$4,483</b>

#### *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 53% is invested in European companies.*

*(c) This fund is passively managed using index sampling. It includes diversified exposure to investment-grade U.S. bonds with approximately 80% in Aaa bonds and all other bonds having a Baa rating or above. These bonds are from primarily industrial, finance, and utility companies with a small amount in commercial mortgage-backed securities.*

*(d) This fund invests in S&P 500 Index stocks, long-term U.S. Treasury bonds, and money market instruments.*

The asset allocations for investments in the Employees' Pension Plan for 2007 are as follows:

<i>At December 31</i>	<i>2007</i>
Equity securities	78%
Debt securities	21%
Cash and short-term reserves	1%

The asset allocations for investments in the Postretirement Plan at December 31, 2007 are substantially the same as those presented in the table above.

**Net Periodic Benefit Expense**

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

Year Ended December 31	Defined Benefit Pension		Postretirement Plan	
	2008	2007	2008	2007
<b>Net periodic benefit expense</b>				
Service cost	\$ 348	\$ 464	\$ 334	\$ 313
Interest cost	1,005	837	383	336
Expected return on plan assets	(1,292)	(1,222)	(458)	(365)
Amortization of prior period actuarial losses	504	390	215	254
Amortization of prior service costs	22	22	58	20
Curtailment charge	48	—	—	—
Net periodic benefit expense	\$ 635	\$ 491	\$ 532	\$ 558

Gains and losses that result from changes in actuarial assumptions, and from actual experience which differs from that assumed, are amortized over the employees' remaining service periods. Any prior service costs due to plan amendments are also amortized over remaining service periods.

**Pension and Postretirement Assets and Liabilities**

The changes in the Employees' Pension Plan assets and Postretirement Plan assets for the past two years are as follows (dollars in thousands):

Year Ended December 31	Employees' Pension Plan		Postretirement Plan	
	2008	2007	2008	2007
<b>Change in plan assets</b>				
Fair value of plan assets, beginning of year	\$16,193	\$14,989	\$5,002	\$4,112
Employer contributions	506	720	1,679	738
Retiree contributions	—	—	136	237
Actual investment (losses) income on plan assets	(5,092)	971	(1,959)	266
Benefits paid	(524)	(487)	(375)	(351)
Fair value of plan assets, end of year	\$11,083	\$16,193	\$4,483	\$5,002

In December 2005, the Foundation established a Grantor Trust pursuant to Section 457(f) of the Internal Revenue Code, as amended, for the benefit of its Supplemental Executive Retirement Plan. During the years ended December 31, 2008 and 2007, employer contributions of \$64,000 and \$102,000, respectively, were made to the Trust. The investments in the Trust accrued investment losses of \$188,000 in 2008 and accrued income of \$41,000 in 2007. The Supplemental Plan investments have been classified on the accompanying statements of financial position in accordance with SFAS No. 87, *Employers' Accounting for Pensions*, and with views expressed by the FASB's Emerging Issues Task Force, and accordingly are not included in the change in plan assets table above. The assets held in the Grantor Trust were \$373,000 and \$680,000 as of December 31, 2008 and 2007, respectively, and are presented in accompanying statement of financial position as Supplemental Pension Plan investments. The investments include mutual funds with asset allocations substantially the same as the Employees' Pension Plan.

## Notes to Financial Statements

The changes in defined benefit pension plan and postretirement health care plan obligations, funded status of the plans, and reconciliation to amounts reported in the financial statements for the past two years are as follows (dollars in thousands):

Year Ended December 31	Defined Benefit Pension		Postretirement Plan	
	2008	2007	2008	2007
<b>Change in benefit obligations</b>				
Benefit obligation, beginning of year	\$16,504	\$14,847	\$ 6,247	\$ 5,950
Service cost	348	464	334	313
Interest cost	1,005	837	383	336
Plan amendments	(1,514)	—	—	283
Actuarial (gains) losses	1,262	940	147	(414)
Benefits paid	(708)	(584)	(375)	(351)
Retiree contributions	—	—	136	130
Curtailements	(2,407)	—	—	—
Benefit obligation, end of year	\$14,490	\$16,504	\$ 6,872	\$ 6,247

### Funded status at December 31

Underfunded plans	\$(3,407)	\$ (311)	\$(2,389)	\$(1,245)
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### Amounts recognized in the financial statements

Prepaid costs	\$ —	\$ 593	\$ —	\$ —
Accrued costs	(3,407)	(904)	(2,389)	(1,245)
Net amounts recognized	\$(3,407)	\$ (311)	\$(2,389)	\$(1,245)

As a result of the plan amendment to cease further benefit accruals as of December 31, 2013, a curtailment of the defined benefit pension plans was recognized as of December 31, 2008. The curtailment was recognized in accordance with SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits* (SFAS No. 88). SFAS No. 88 defines a curtailment as an event that significantly reduces the expected years of future service of present employees or eliminates for a significant number of employees the accrual of defined benefits for some or all of their future services.

The amounts recorded for the pension-related changes not reflected in operating expenses in accordance with SFAS No. 158 are as follows (dollars in thousands):

Year Ended December 31, 2008	Defined Benefit Pension	Post-Retirement Plan	Total Employee Benefit Plans
<b>Net actuarial (gains)/losses:</b>			
Arising during the period	\$ 7,647	\$2,565	\$10,212
Curtailement	(2,407)	—	(2,407)
Reclassified to operating expenses during the period	(504)	(213)	(717)
	4,736	2,352	7,088
<b>Net prior service costs/(credits):</b>			
Arising during the period	(1,515)	—	(1,515)
Curtailement	(47)	—	(47)
Reclassified to operating expenses during the period	(22)	(58)	(80)
	(1,584)	(58)	(1,642)
	\$ 3,152	\$2,294	\$ 5,446

Year Ended December 31, 2007	Defined Benefit Pension	Post-Retirement Plan	Total Employee Benefit Plans
<b>Net actuarial (gains)/losses:</b>			
Arising during the period	\$1,188	\$(316)	\$872
Reclassified to operating expenses during the period	(389)	(253)	(642)
	799	(569)	230
<b>Net prior service costs/(credits):</b>			
Arising during the period	—	284	284
Reclassified to operating expenses during the period	(22)	(20)	(42)
	(22)	264	242
	\$ 777	\$(305)	\$472

The following is additional information for the Foundation's employee benefit plans (dollars in thousands):

<i>Year Ended December 31, 2008</i>	<i>Defined Benefit Pension</i>	<i>Post-Retirement Plan</i>	<i>Total Employee Benefit Plans</i>
<b>Amounts not recognized as components of net periodic benefit costs:</b>			
Net actuarial losses	\$ 9,211	\$ 4,683	\$ 13,894
Net prior service costs	(1,469)	266	(1,203)
	\$ 7,742	\$ 4,949	\$ 12,691
<b>Amounts expected to be recognized during the year ended December 31, 2009:</b>			
Net actuarial losses	\$ 1,008	\$ 417	\$ 1,425
Net prior service costs (credits)	(176)	58	(118)
	\$ 832	\$ 475	\$ 1,307

<i>Year Ended December 31, 2007</i>	<i>Defined Benefit Pension</i>	<i>Post-Retirement Plan</i>	<i>Total Employee Benefit Plans</i>
<b>Amounts not recognized as components of net periodic benefit costs:</b>			
Net actuarial losses	\$ 4,475	\$ 2,333	\$ 6,808
Net prior service costs	115	324	439
	\$ 4,590	\$ 2,657	\$ 7,247

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

<i>Year Ended December 31</i>	<i>Defined Benefit Pension</i>	<i>Postretirement Plan</i>
2009	\$ 771	\$ 229
2010	800	255
2011	823	276
2012	1,026	306
2013	1,013	339
2014 – 2018	6,047	2,322

The Foundation expects to contribute approximately \$597,000, \$312,000, and \$1,659,000 to its Employees' Pension Plan, Supplemental Executive Retirement Plan, and Postretirement Healthcare Plan, respectively, during 2009.

## 6. Furniture, Equipment, and Leasehold Improvements

<i>At December 31 (dollars in thousands)</i>	<i>2008</i>	<i>2007</i>
Furniture and equipment	\$ 9,043	\$ 8,112
Leasehold improvements	3,752	3,270
	12,795	11,382
Accumulated depreciation and amortization	(10,401)	(9,444)
	\$ 2,394	\$ 1,938

## 7. Lease Commitments

The Foundation occupies office space under operating leases. Total rental expense for office space and equipment amounted to \$1,670,000 and \$1,588,000 in 2008 and 2007, respectively. The operating leases for the Foundation's office space extend through various periods, the latest ending September 30, 2012. Accrued rent expense attributable to escalating minimum lease payments, initial rent abatement, and a leasehold improvement allowance totaled \$1,786,000 and \$1,142,000 at December 31, 2008 and 2007, respectively, and is reflected in liabilities in the accompanying statements of financial position. The rent expense liability is being amortized over the remaining term of the applicable operating lease. During 2005, an operating lease was amended to include provisions for cash payments received by the Foundation from a landlord in 2006 and 2008.

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

<i>Year Ended December 31</i>	
2009	1,903
2010	1,946
2011	2,045
2012	1,557
Total minimum lease payments	\$7,451

## 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 Foundation 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 Foundation, through its Audit Committee, oversee: (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 Foundation's auditors render an objective, independent opinion annually on the organization's financial statements and on the effectiveness of internal control over financial reporting, and they have free and direct access to discuss matters with the Audit Committee, with and without the presence or knowledge of management. The auditors are engaged by and report directly to the Audit Committee.

The Foundation's Audit Committee has chosen to follow requirements issued for public companies 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 Foundation is not a public company, the Committee has concluded that the organization should voluntarily comply with public company recommendations and regulations where appropriate. The Audit 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 Foundation has completed its compliance plan with respect to internal controls over accounting and financial reporting (as addressed for public companies by Section 404 of the Sarbanes-Oxley Act). The Audit Committee's charter is available through the office of the Foundation's president.

Management of the Foundation is responsible for establishing and maintaining adequate internal control over financial reporting. The Foundation'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 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 Foundation's internal control over financial reporting as of December 31, 2008. 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*. We have concluded that, based upon our evaluation, the Foundation's internal control over financial reporting was effective as of December 31, 2008.

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



John J. Brennan  
Chairman  
Financial Accounting Foundation Board of Trustees



Teresa S. Polley  
President  
Financial Accounting Foundation

To the Board of Trustees  
Financial Accounting Foundation

We have audited the accompanying statements of financial position of the Financial Accounting Foundation as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. We also have audited the Financial Accounting Foundation's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. The Financial Accounting Foundation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying report of management. Our responsibility is to express an opinion on these financial statements and an opinion on the Financial Accounting Foundation's internal control over financial reporting based on our audits.

We conducted our audit of the financial statements in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (PCAOB). Our audit of internal controls over financial reporting was done in accordance with the auditing standards of the PCAOB and the attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

An entity's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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, 2008 and 2007, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Financial Accounting Foundation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission*.



McGladrey & Pullen, LLP  
New Haven, Connecticut  
April 30, 2009

# Financial Accounting Foundation

Financial Accounting  
Standards Board  
[www.fasb.org](http://www.fasb.org)

Governmental Accounting  
Standards Board  
[www.gasb.org](http://www.gasb.org)

401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116  
Telephone: 203 847 0700

*To Make a Financial  
Contribution to the GASB*

Steven Getz  
Director, Administration  
Telephone: 203 956 5251  
e-mail: [spgetz@f-a-f.org](mailto:spgetz@f-a-f.org)

*Inquiries*

Christine Klimek  
Telephone: 203 956 3459  
e-mail: [cklimek@f-a-f.org](mailto:cklimek@f-a-f.org)

*Subscription Information*

Telephone: 800 748 0659

e-mail: [fasbpubs@fasb.org](mailto:fasbpubs@fasb.org)  
(for FASB publications)

e-mail: [gasbpubs@gasb.org](mailto:gasbpubs@gasb.org)  
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401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116