2018 ANNUAL REPORT

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

www.pcaobus.org

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MISSION

The PCAOB oversees the audits of public companies and SEC-registered brokers and dealers in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

VISION

The PCAOB will be a trusted leader that promotes high quality auditing through forward-looking, responsive, and innovative oversight. At all times, we will act with integrity, pursue excellence, operate with effectiveness, embrace collaboration, and demand accountability.

VALUES

INTEGRITY

We adhere to the highest standards of ethical and professional conduct. We engage internally and externally in a manner that is consistent, honest, and fair.

EXCELLENCE

We pursue excellence in all we do. We are committed to further developing the many talents of our people so that we can improve our oversight and operations.

EFFECTIVENESS

We manage our resources effectively and efficiently. We respond to a changing environment by implementing relevant, timely, and innovative solutions to achieve our mission.

COLLABORATION

We are dedicated to a culture of collaboration and inclusiveness, which we foster by encouraging openness, accessibility, trust, and respect. We embrace a diverse set of experiences, skills, perspectives, and backgrounds, which enriches our work and enhances the effectiveness of our efforts.

ACCOUNTABILITY

We depend on the diligence and dedication of our people to accomplish our mission and implement our vision. We owe each other our very best effort and expect to be held accountable. We recognize and reward outstanding performance.

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MESSAGE FROM THE CHAIRMAN

The Public Company Accounting Oversight Board was established by the Sarbanes-Oxley Act of 2002 to oversee the audits of public companies in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports. Since 2010, the PCAOB's mission has also included overseeing the audits of SEC-registered brokers and dealers.

The PCAOB's 2018 Annual Report summarizes our operations and financial results from fiscal year 2018. It details, by strategic priority, key initiatives pursued by the five Board Members and our talented staff during the previous year.

Not since the PCAOB was first established in 2003 have five new Board members joined the organization in the same year. This change in the Board's composition in 2018 provided a significant opportunity—a chance to reflect on lessons learned, to innovate, and ultimately to improve how we approach our oversight of the auditing profession in an increasingly dynamic and demanding environment.

In 2018, the Board embarked on a collaborative strategic planning process. We also undertook a comprehensive organizational assessment that generated a series of transformation initiatives across all PCAOB programs and activities.

Based on the input we received and our own analysis, we identified the following four primary strategic priorities for 2018-2022: **Effective Oversight, Innovation, Improved Engagement, and Process and Culture Optimization.** This year's Annual Report highlights areas in which we have made important progress on these strategic priorities in 2018, and we remain committed to making even more headway in the coming years.

The PCAOB must be a trusted leader in driving continuous improvement in audit quality. While emphasizing our four primary strategic priorities, we will be proactive, responsive, and innovative in overseeing the audit profession.

As Chairman, I will continue to work cooperatively with my fellow Board Members, our committed staff, the U.S. Securities and Exchange Commission, and other interested parties as we strive to fulfill our statutory mission in the most efficient and effective manner possible.

Respectfully,

William D. Duhnke III

CHAIRMAN, PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD
Washington, D.C., March 26, 2019

STRATEGIC PLANNING PROCESS

Internal Dialogue + **472** External Survey Participants + **36** One-On-One Interviews

RELEASED DRAFT STRATEGIC PLAN

DRAFT DRAFT

SOUGHT PUBLIC COMMENT

33 COMMENT LETTERS on the draft strategic plan

FINAL STRATEGIC PLAN CENTERED ON 5 GOALS

FINAL

READ THE BOARD'S FINAL 2018-2022 STRATEGIC PLAN

2018–2022 STRATEGIC PLAN

Each year since 2007, the PCAOB has developed a strategic plan with at least a five-year outlook. In 2018, the Board's approach to strategic planning differed substantially from past years in a number of ways, most notably by making it as open and accessible as possible.

For the first time in the PCAOB's history, we reached beyond our own four walls for input. The response was overwhelmingly positive and very helpful in determining our goals and objectives.

We engaged a third party to host an anonymous public survey; our strategic planning consultant conducted a series of one-on-one interviews; and we sought feedback from our entire workforce—not just our leadership. After developing a draft strategic plan based on outreach efforts and our own vision, we published the draft plan and sought comments from the public.

Overall, our outreach revealed much about what we do well and what we can improve upon. It also revealed much about the current state of audit quality and the audit profession, the evolving risk landscape, and the rapidly changing environment in which we operate.

Moving forward, the new strategic plan and the accompanying goals and objectives will guide the Board's activities. To fulfill our vision and mission, the PCAOB Board approved a strategic plan with **five goals:**

1. **Drive improvement in the quality of audit services through a combination of prevention, detection, deterrence, and remediation.**
2. **Anticipate and respond to the changing environment, including emerging technologies and related risks and opportunities.**
3. **Enhance transparency and accessibility through proactive stakeholder engagement.**
4. **Pursue operational excellence through efficient and effective use of our resources, information, and technology.**
5. **Develop, empower, and reward our people to achieve our shared goals.**

EFFECTIVE OVERSIGHT

The PCAOB is committed to driving continuous improvement in the quality of audit services. In 2018, we worked to improve our oversight through inspections, standard-setting activities, enforcement, economic and risk analysis, and international engagement.

REVISITING OUR APPROACH TO INSPECTIONS

In an effort to align our inspections functions with our new strategic goals and objectives, we launched a number of integrated transformation activities in the summer of 2018. During this process, we began revisiting:

- **The fundamental purpose of our inspections program**
- **How we select audit engagements for inspection**
- **What procedures we perform during an inspection**
- **What data we collect and use as part of our inspections**
- **How, what, and when we report on our inspections**

We also began reviewing our approach to remediation determinations, with the goal of ensuring our process is timelier and to make sure it focuses on driving meaningful improvements in the firms' quality control systems.

In 2018, the Board announced it will begin implementing incremental changes to inspections activities in our 2019 inspections cycle, which will continue into future years as we make progress on our inspections transformation initiatives.

IMPLEMENTING THE NEW AUDITOR'S REPORT STANDARD

The PCAOB worked diligently on the implementation of the new auditor's report standard in an accessible and transparent manner. Our standard-setting professionals proactively provided resources and training directly to auditors through staff guidance and a webinar. Additionally, we launched a new webpage on the new auditor's report standard to clearly communicate to auditors and all of our stakeholders the key implementation dates, resources, future evaluation plans, and more. These efforts are ongoing and remain a priority for the Board in 2019.

POST-IMPLEMENTATION REVIEW

The PCAOB is committed to robust economic analysis, including post-implementation reviews of our standards that leverage data from our oversight activities. In 2018, the PCAOB staff completed its first post-implementation review, which was of AS 1220, *Engagement Quality Review*. We are committed to reporting our conclusions to the public upon completion of each post-implementation review to promote transparency regarding the impact of our rules and standards.

2018 OVERSIGHT BY THE NUMBERS

1,862
Registered Firms as of December 31, 2018

20
Settled Disciplinary Orders

153
Inspection Reports Issued

6
New research working papers by PCAOB staff and research fellows made public

30
Non-U.S. jurisdictions visited for inspections

24
Cooperative agreements with foreign audit regulators following a deal with Austria in 2018

STANDARD-SETTING AND RESEARCH PROJECTS

In 2018, the Board approved two significant items on our standard-setting project agenda: a new standard on auditing accounting estimates and amendments to PCAOB standards on the auditor's use of the work of specialists. Our decisions came after thoughtful analysis and extensive external engagement, recognizing that these are both challenging areas of the audit that needed to be addressed.

- **Auditing Accounting Estimates, Including Fair Value Measurements:** The new standard replaces three standards with a single standard that sets forth a uniform approach to auditing accounting estimates. Among other things, it emphasizes that auditors need to apply professional skepticism, including addressing potential management bias, when auditing accounting estimates. Additionally, the new standard provides more specific direction on auditing fair values of financial instruments, including when pricing information from third-party sources is used.
- **Auditor's Use of the Work of Specialists:** The amendments adopted by the Board strengthen the requirements for evaluating the work of a company's specialist, whether employed or engaged by the company. They also apply a common supervisory approach to both auditor-employed and auditor-engaged specialists.

The effective date for the new standard and the amendments is for audits of financial statements for fiscal years ending on or after December 15, 2020, subject to approval by the Securities and Exchange Commission. We are committed to establishing a robust implementation plan to monitor progress and provide any necessary guidance and resources to auditors and other affected parties.

The Board announced in 2018 that we plan to prioritize two specific areas on our research agenda in 2019:

- **Data and technology**
- **Quality control**

Additionally, in 2019 we plan to examine all other items on the standard-setting and research agendas. We will determine what items to advance, what items to remove, and whether to add any new items to the agendas. We believe that once something is placed on the agenda it needs to move as expeditiously and as transparently as possible.

ADVISORY GROUPS

The PCAOB annually convenes two advisory groups, the Standing Advisory Group and the Investor Advisory Group, to provide advice and insight to the Board.

The Standing Advisory Group met in June and November of 2018. During our June Meeting, the primary topics of discussion were data and technology, cybersecurity, corporate culture, current or emerging issues that may affect audits or auditors, and implementation of the new auditor's report. During our November meeting, the primary topics of discussion were communications about PCAOB standards and governance and leadership in firm quality control systems. At both meetings, PCAOB staff gave a standard-setting update.

The Investor Advisory Group met in November of 2018. During the meeting, the primary topics of discussion were on the Board's strategic plan, quality control standards, implementation of the new auditor's report, and implementation of Form AP.

BOARD VIEWPOINT

"I am passionate about the importance of relevant and reliable financial information to the integrity of our public capital markets. Independent and high quality audits are an essential tool in ensuring trustworthy financial reporting, and the PCAOB plays a critical role in driving continuous improvement in audit quality through effective oversight."

Duane M. DesParte

BOARD MEMBER

INNOVATION

Technology is changing how the audit is conducted and, consequently, how we perform our oversight. The PCAOB pursued several initiatives in 2018 to ensure that we remain innovative in our oversight activities. At the same time, we worked to prepare the organization for significant market-driven changes in the audit profession. We intend to stay informed of these changes and respond appropriately to them.

DATA AND TECHNOLOGY TASK FORCE

In 2018, our data and technology task force met for the first time to provide information and insight to the Office of the Chief Auditor's research team regarding the use of data analytics and certain other emerging technologies. The purpose of the task force is to assess what, if any, impact data and technology may have on our standard-setting activities.

The task force is composed of:

- **Five auditors**
- **Two academics**
- **Four Standing Advisory Group members with experience on audit committees and/or as investors**

Our task force, along with other activities, will inform our data and technology research project by assessing how new technologies may be impacting audit procedures and quality and will help the Board determine the most appropriate policy responses.

UNDERSTANDING INNOVATION IN OUR INSPECTIONS

Our inspections staff launched a new focus area in 2018 to understand the systems of quality control that firms have in place to provide assurance that current and emerging tools used to analyze data meet audit objectives.

We are assessing whether engagement teams are effectively using these tools and appropriately evaluating the results of screening large data populations, as well as whether engagement teams are applying due care and professional skepticism when using these tools during the performance of audit work. The insights gained through this new focus area will also inform our data and technology research project.

USE OF DATA ANALYTICS

Our economic and risk analysis team continues to increase the use of advanced statistical techniques and machine learning methods to support risk analysis, the selection of engagements for inspection, and case analysis identification for enforcement. The team is also sharpening its use of natural language processing skills to analyze unstructured data, specifically new disclosures in the audit report.

ENFORCEMENT ACTIVITIES

Our enforcement staff are working to better leverage data and technology, including using new analytics, case management, and forensic software tools. These efforts will improve the efficiency and effectiveness of investigations, lead to the most effective deployment of our resources, and allow us to better measure and communicate results.

BOARD VIEWPOINT

"Sitting here today we do not know exactly how emerging technologies will change financial reporting and auditing. But we do know that replacing legacy systems and approaches provide the opportunity to build regulatory requirements, quality controls, and cybersecurity into solutions from the start rather than bolting them on after the fact. This is why technology can be so powerful and transformational. We are positioning the PCAOB to better anticipate and adapt to this changing environment."

Kathleen M. Hamm

BOARD MEMBER

IMPROVED ENGAGEMENT

We are committed to engaging more often and more directly with all of our stakeholders, including a broad array of investors, audit committees, preparers, firms, and other interested parties to promote robust and timely dialogue regarding the quality of audit services. In 2018, the PCAOB laid the groundwork toward achieving this strategic priority.

OFFICE OF EXTERNAL AFFAIRS

A new Office of External Affairs was formed in November 2018 to spearhead efforts to increase accessibility and enhance engagement with all of our stakeholders. This office will establish a liaison function to expand and improve our outreach with investors, financial statement preparers, audit committees, firms, and other relevant parties.

COMMUNICATIONS ON INSPECTIONS

In December 2018, the PCAOB's inspections division staff published the 2019 *Inspections Outlook*, which provided an overview of various areas of inspection focus for 2019 and outlined ongoing inspections transformation activities. As a part of our efforts to have an ongoing and timely dialogue with various stakeholders, the outlook document gives auditors the opportunity to consider this information when planning and performing their current and upcoming audits as well as during the review of their quality control systems. The Board has prioritized making our inspections reports and other external communications about our inspections more useful to a broad array of stakeholders.

BOARD VIEWPOINT

"To truly understand and protect the interests of investors we need to hear from them directly. Protecting the interests of investors is a task that requires continuous introspection on our part and continuous interaction with our stakeholders. That is why our strategic plan highlights the Board's desire to become more open with respect to our operations and with respect to the information that we collect and produce. This enhanced engagement is critical, and I look forward to continuing to build upon our work in 2018 to achieve this important goal."

J. Robert Brown, Jr.

BOARD MEMBER

2018 ENGAGEMENT BY THE NUMBERS

427

Individuals who participated in the 2018 Standing Advisory Group or Investor Advisory Group meetings in person or via webcast

1,329

Attendees at the forums held across the country and live-streamed in 2018 for auditors of small businesses and broker-dealers

97

International officials at the PCAOB's International Institute on Audit Regulation in December 2018, representing 42 non-U.S. jurisdictions and five international organizations

150

Researchers who attended the PCAOB conference on auditing and capital markets

8

International Forum of Independent Audit Regulators (IFIAR) meetings with PCAOB Board and staff participation, including at the leadership level

332

Students who were nominated by their college or university and awarded $10,000 scholarships from the PCAOB in 2018

PROCESS AND CULTURE OPTIMIZATION

The PCAOB is fortunate to have an extraordinarily mission-focused, talented, and dedicated staff. We believe we need to develop, empower, and reward our people to best achieve our shared goals.

Throughout 2018, the Board prioritized the need to optimize our own internal functions and enhance the culture of our organization to fulfill our statutory mandate in the most effective and efficient manner possible. The Board took important steps toward achieving these objectives.

INFORMATION TECHNOLOGY & DATA MANAGEMENT

In 2018, we began developing a formal organization-wide strategy related to our own Information Technology program management, use of data, and data security. The Board initiated an enterprise data initiative to assess our data management practices. We also created the position of Chief Data Officer to lead our development of a data management strategy and build on the work of our Office of Economic and Risk Analysis in this critical area. The Office of Information Technology procured infrastructure equipment and services that will serve as the foundation for more flexible data backup and disaster recovery capabilities.

ENTERPRISE RISK MANAGEMENT SYSTEM

We established a new Office of Enterprise Risk Management and began to develop an enterprise risk management strategy and policy framework in 2018. Led by the organization's first Chief Risk Officer, the office will include leaders in compliance, information security, and physical security, in addition to the PCAOB's ethics officer.

INTERNAL OVERSIGHT AND PERFORMANCE ASSURANCE

The Board finalized a new charter for the Office of Internal Oversight and Performance Assurance and hired a new Director with more than 20 years of internal audit experience with major publicly-traded corporations. Along with building a team of professional auditors, the Director is committed to enhancing and protecting organizational value by providing risk-based and objective assurance, advice, and insight.

ETHICS HOTLINE

In December 2018, we launched the PCAOB's first "Ethics Hotline" for all employees and contractors. They can use this 24/7 hotline, administered by a third-party vendor, to bring forward concerns about any possible violations of our Ethics code or our policies and procedures. Reports are anonymous and confidential.

LEADERSHIP DEVELOPMENT AND CONTINUOUS LEARNING

The Board is emphasizing leadership development and continuous learning at the PCAOB. To assist with these efforts, we piloted an organization-wide Learning Management System in 2018. This system is inclusive of varied learning styles and will provide our staff with access to a wide range of self-service technical and professional development resources. Customized individual learning plans and other on-demand coaching aids offered by the system directly support our goal of further developing our people and enriching the PCAOB's workforce.

BOARD VIEWPOINT

"The Board's work to pursue operational excellence through efficient use of resources, including increasing and optimizing our information technology investments, is key to strengthening our capabilities. I am passionate about increasing the PCAOB's investments in information technology. I also believe that empowering our workforce is key to an effective organization. The PCAOB's staff is deeply committed to our mission. Going forward, we will collectively reinforce a culture that expects integrity, pursues excellence, operates with effectiveness, embraces collaboration, and demands accountability."

James G. Kaiser

BOARD MEMBER

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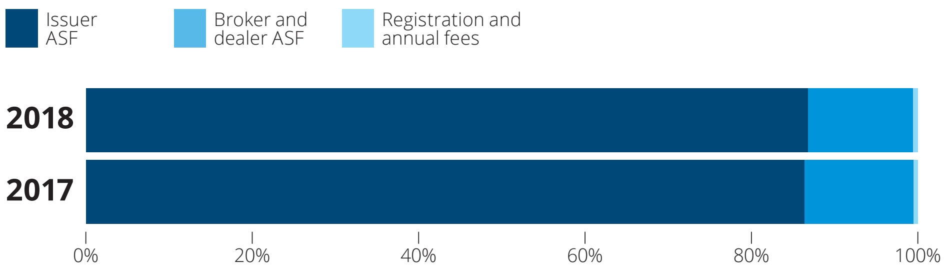
FINANCIAL REVIEW

This financial review, together with the 2018 audited financial statements and the accompanying notes, provides financial information related to our programs and activities. Our financial statements are presented in accordance with accounting principles generally accepted in the United States and reflect the specific reporting requirements of not-for-profit organizations. The following is a discussion of the highlights of our activities and financial position as presented in the accompanying audited financial statements.

FINANCIAL HIGHLIGHTS

Operating Revenue

as of December 31, 2018 and 2017



REVENUES

Overall, net operating revenues decreased by $32.7 million, or 12%, from 2017 to 2018 due to the decrease in the accounting support fee assessed on issuers and brokers and dealers in 2018. The table below presents our net operating revenues by line item for the years ended December 31, 2018 and 2017:

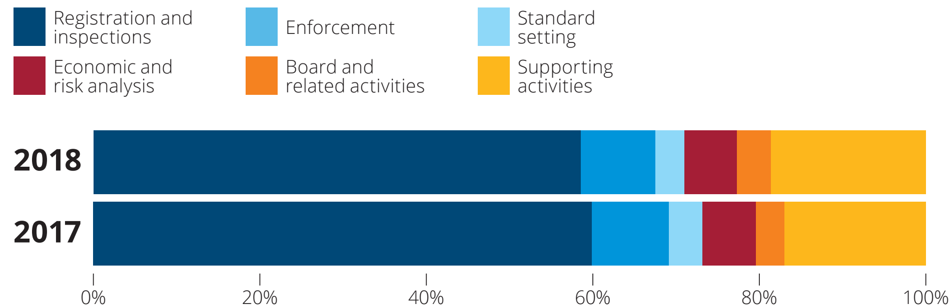
($ in millions)	2018	2017	$ Change	% Change
Issuer accounting support fee	$205.4	$232.6	$(27.2)	(12)%
Broker-dealer accounting support fee	29.9	35.3	(5.4)	(15)
Registration and annual fees from PCAOB-registered public accounting firms	1.4	1.5	(0.1)	(3)
Total net operating revenue	**$236.7**	**$269.4**	**$(32.7)**	**(12)%**

The accounting support fee in our annual budget for each year is calculated based on an estimate of annual expenses and an estimate of expenses for the first five months of the subsequent year, net of cash on hand and certain other adjustments.

The decrease in the accounting support fee is primarily due to a decrease in our 2018 budget principally resulting from lower planned headcount and the fact that we did not spend all of our allotted 2017 budget.

Operating Expenses

as of December 31, 2018 and 2017



EXPENSES

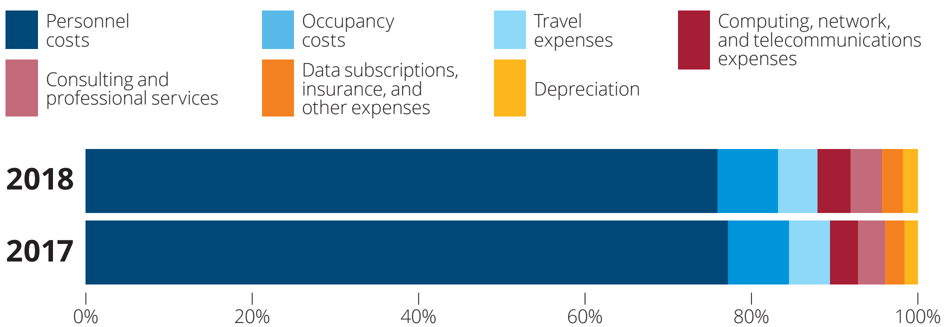
Our expenses are largely driven by employee-related costs. Overall, operating expenses decreased by $1.6 million, or 1%, from 2017 to 2018 due to reasons discussed below.

The table below presents operating expenses (by program services and supporting activities) for the years ended December 31, 2018 and 2017:

($ in millions)	2018	2017	$ Change	% Change
PROGRAM SERVICES:				
Registration and inspections	$147.3	$151.7	$(4.4)	(3)%
Enforcement	22.7	23.4	(0.7)	(3)
Standard setting	9.0	10.2	(1.2)	(12)
Economic and risk analysis	15.7	16.0	(0.3)	(2)
Board and related activities	9.7	8.8	0.9	10
SUPPORTING ACTIVITIES:				
Administrative and general	33.7	33.4	0.3	1
Information technology	13.5	9.7	3.8	38
Total operating expenses	**$251.6**	**$253.2**	**$(1.6)**	**(1)%**

Expenses by Type

as of December 31, 2018 and 2017



The table below presents operating expenses (by natural classification) for the years ended December 31, 2018 and 2017:

($ in millions)	2018	2017	$ Change	% Change
Personnel costs	$191.1	$195.4	$(4.3)	(2)%
Occupancy costs	18.2	18.6	(0.4)	(2)
Travel expenses	12.1	12.4	(0.3)	(2)
Computing, network, and telecommunications expenses	9.8	8.6	1.2	15
Professional and consulting fees	9.5	8.1	1.4	17
Data subscriptions, insurance, and other expenses	6.4	6.0	0.4	6
Depreciation	4.5	4.1	0.4	9
Total operating expenses	**$251.6**	**$253.2**	**$(1.6)**	**(1)%**

Personnel-related costs are our largest expense. These costs decreased by $4.3 million in 2018. The decrease was driven by lower average monthly headcount in 2018 compared to 2017, principally due to the reduction of 43 staff positions through a voluntary exit program in 2017 and additional attrition in 2018. The decrease in costs was partially offset by annual compensation increases related to employee merit awards and new positions to support the Board's transformation agenda.

Occupancy costs; travel expenses; data subscriptions, insurance and other expenses; and depreciation remained generally consistent as compared to the prior year.

Computing, network, and telecommunications expenses increased by $1.2 million principally as a result of an increase in network and telecommunications costs.

Professional and consulting fees increased by $1.4 million as a result of an increase in the volume of non-U.S. inspections requiring translation services, additional costs to support security enhancements, costs associated with the development of the Board's strategic plan, and additional costs supporting the Board's transformation agenda.

Operating expenses by program service and support activity were affected by the items described above. In addition, Board and related activity expense increased due to higher personnel costs from an increased headcount in support of the Board's transformation agenda. Information technology support activities increased by $3.8 million primarily for personnel costs and consulting costs to implement changes to the information technology compliance and governance framework and transformation efforts associated with their service delivery model.

Other Revenue (Expenses)

The table below presents components of other revenue (expenses) for the years ended December 31, 2018 and 2017:

($ in millions)	2018	2017	$ Change	% Change
Interest income and other	$ 2.7	$ 1.4	$ 1.3	94%
Monetary penalties, net	1.1	4.9	(3.8)	(77)
Scholarship payments, net	(3.3)	(1.7)	(1.6)	100
Total other revenue	**$ 0.5**	**$ 4.6**	**$(4.1)**	**(90)%**

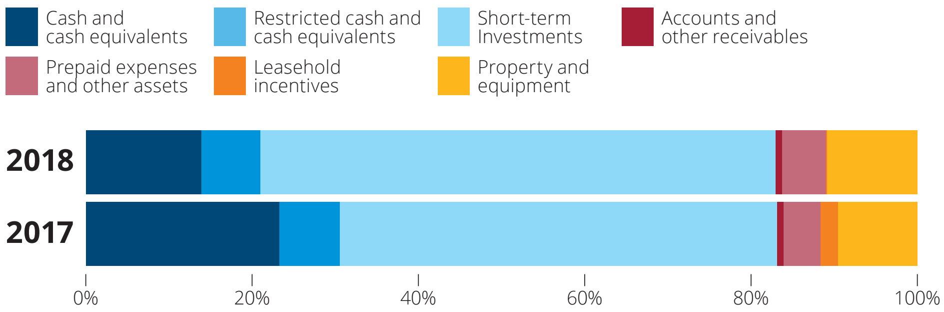
Interest income and other increased by $1.3 million primarily due to higher interest rates in 2018 on cash and cash equivalents and short-term investments, as compared to 2017.

Monetary penalties, net, decreased by $3.8 million, primarily due to a decrease in monetary penalties that became effective in 2018 as compared to 2017.

Scholarship payments, net, increased by $1.6 million since we awarded 332 merit-based scholarships of $10,000 each in 2018 as compared to 167 in 2017.

Assets by Type

as of December 31, 2018 and 2017



ASSETS

Our total assets decreased by $14.6 million, or 7%, from 2017 to 2018, primarily due to an overall decrease in cash and cash equivalents and leasehold incentives, partially offset by an increase in short-term investments.

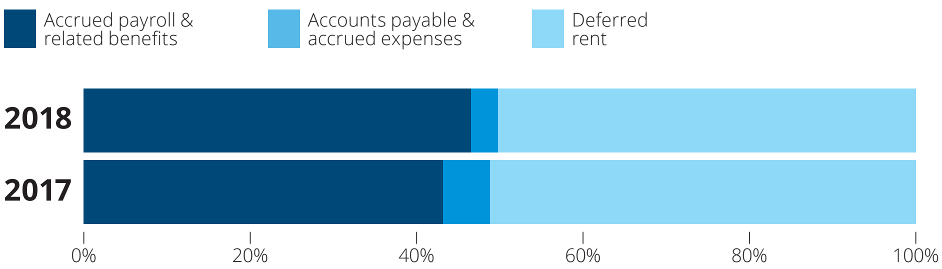
The table below presents total assets by type as of December 31, 2018 and 2017:

($ in millions)	2018	2017	$ Change	% Change
Cash and cash equivalents	$ 26.2	$ 47.3	$(21.1)	(45)%
Restricted cash and cash equivalents	13.5	14.9	(1.4)	(9)
Short-term investments	117.0	106.9	10.1	9
Accounts and other receivables, net of allowance	1.4	1.7	(0.3)	(16)
Prepaid expenses and other assets	10.0	9.0	1.0	11
Leasehold incentives	0.3	4.3	(4.0)	(94)
Furniture and equipment, leasehold improvements, and technology, net	20.5	19.4	1.1	6
Total assets	**$188.9**	**$203.5**	**$(14.6)**	**(7)%**

- *Cash and Cash Equivalents*—Cash and cash equivalents decreased by $21.1 million due to a decrease in accounting support fees assessed and the timing of our investment purchases.
- *Restricted Cash and Cash Equivalents*—At December 31, 2018 and 2017, restricted cash and cash equivalents totaled $13.5 million and $14.9 million, respectively, and consisted primarily of funds designated for scholarships in accordance with Section 109(c)(2) of the Sarbanes-Oxley Act. The decrease of $1.4 million was primarily related to $3.3 million in scholarships awarded in 2018, partially offset by the collection of $1.9 million in monetary penalties.
- *Short-term Investments*—Investments in U.S. government securities increased by $10.1 million from 2018 to 2017 due to the timing of investment purchases.
- *Leasehold Incentives*—Leasehold incentives decreased by $4.0 million, related to the use of leasehold incentives for the renovation project in our Washington, D.C. office that was completed in 2018.
- *Furniture and Equipment, Leasehold Improvements, and Technology, net*—Furniture and equipment, leasehold improvements, and technology, net increased by $1.1 million from 2017 to 2018, which primarily relates to additions of fixed assets of $5.6 million (including $3.7 million in fixed assets purchased using leasehold incentives) in 2018, partially offset by depreciation and amortization expenses of $4.5 million.

Liabilities by Type

as of December 31, 2018 and 2017



LIABILITIES

Our total liabilities remained relatively consistent between 2018 and 2017. The table below presents total liabilities by type as of December 31, 2018 and 2017:

($ in millions)	2018	2017	$ Change	% Change
Accrued payroll and related benefits	21.4	$19.9	$ 1.5	8%
Accounts payable and accrued expenses	1.4	2.6	(1.2)	(43)
Deferred rent	23.1	23.6	(0.5)	(2)
Total liabilities	**$45.9**	**$46.1**	**$(0.2)**	**0%**

Liabilities by Type:

- *Accrued Payroll and Related Benefits*—Accrued payroll and related benefits, consisting primarily of personnel-related liabilities, increased by $1.5 million from 2017 to 2018 primarily due to an increase in accrued paid-time off.
- *Accounts Payable and Accrued Expenses*—Accounts payable and accrued expenses decreased by $1.2 million from 2017 to 2018 primarily due to a decrease in accrued expenses in 2018 related to the expenditures for Washington, D.C. office renovations (completed in 2018) and technology expenses.

NET ASSETS WITHOUT DONOR RESTRICTIONS

Our net assets without donor restrictions decreased by $14.4 million, or 9%, from 2017 to 2018 for reasons discussed below.

The table below presents net assets without donor restrictions as of December 31, 2018 and 2017:

($ in millions)	2018	2017	$ Change	% Change
Undesignated	$112.4	$124.8	$(12.4)	(10)%
Statutorily designated for scholarships in Section 109(c)(2) of the Sarbanes-Oxley Act	13.4	15.6	(2.2)	(14)
Statutorily designated for sequestration	17.2	17.0	0.2	1
Total net assets without donor restrictions	**$143.0**	**$157.4**	**$(14.4)**	**(9)%**

Undesignated Assets—Our undesignated net assets without donor restrictions decreased by $12.4 million from 2017 to 2018 as a result of the $14.9 million operating loss driven by the items discussed above, partially offset by interest income and other.

Designated Assets—Our net assets without donor restrictions include funds designated for specific uses, as described below.

- *Statutorily Designated for Scholarship Funds*—In accordance with Section 109(c)(2) of the Sarbanes-Oxley Act, all funds generated from the collection of monetary penalties are to be used exclusively to fund a merit scholarship program for undergraduate and graduate students enrolled in accredited accounting degree programs. The decrease of $2.2 million results from $3.3 million in scholarships awarded during 2018, partially offset by imposition of monetary penalties of $1.1 million.
- *Statutorily Designated for Sequestration*—The Statements of Financial Position include statutorily designated funds for sequestration. In March 2013, OMB determined that we are subject to sequestration pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, 2 U.S.C. § 901a. The amounts subject to sequestration in 2018 remained generally consistent as compared to the prior year.

LIQUIDITY

We are primarily supported by accounting support fees assessed, with certain assets subject to statutory restrictions or contractual restrictions under an agency agreement. As part of our liquidity management, our policy is to structure our financial assets to be available as our general expenditures, liabilities, and other obligations come due.

At December 31, 2018, we held $126.0 million in cash and cash equivalents ($26.2 million) and short-term investments ($99.8 million) that were available within one year to pay general expenditures, with the remaining amount of short-term investments ($17.2 million) designated for sequester, which will be used to offset the $17.0 million sequestered in 2019 (as discussed in Note 7 of the financial statements). At December 31, 2018, $4.4 million of restricted cash and cash equivalents was available to pay for future scholarship awards, with an additional $9.1 million subject to congressional appropriation prior to their use to fund scholarships (as discussed in Note 7 of the financial statements).

REPORT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

To the Board of the Public Company Accounting Oversight Board Washington, D.C.

OPINIONS ON THE FINANCIAL STATEMENTS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

We have audited the accompanying statements of financial position of the Public Company Accounting Oversight Board (PCAOB) as of December 31, 2018 and 2017, and the related statements of activities and cash flows for each of the years in the two-year period ended December 31, 2018, and the related notes (collectively referred to as the financial statements). We also have audited the PCAOB's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PCAOB as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the PCAOB maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework (2013) issued by COSO.

CHANGE IN ACCOUNTING PRINCIPLE

As discussed in Note 2 to the financial statements, PCAOB adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* and Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230)—Restricted Cash for the year ended December 31, 2018*. PCAOB adopted the standards on a retrospective basis.

BASIS FOR OPINION

The PCAOB'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 Financial Reporting Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the PCAOB's financial statements and an opinion on the PCAOB's internal control over financial reporting based on our audits. We are required to be independent with respect to the PCAOB in accordance with the relevant ethical requirements relating to our audit.

We conducted our audits in accordance with the auditing standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. 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.

DEFINITION AND LIMITATIONS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

A company'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. A company'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 company'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.

We have served as the PCAOB's auditor since 2006.

Blum, Shapiro + Company, P.C.

West Hartford, Connecticut
March 26, 2019

FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 26,217,357	$ 47,269,002
Restricted cash and cash equivalents	13,479,894	14,925,054
Short-term investments	116,975,201	106,849,669
Accounts and other receivables, net of allowance	1,431,004	1,707,389
Prepaid expenses and other assets	9,989,123	9,031,049
Leasehold incentives	281,409	4,345,423
Furniture and equipment, leasehold improvements, and technology, net	20,540,691	19,398,924
TOTAL ASSETS	**$188,914,679**	**$203,526,510**
Liabilities and Net Assets without donor restrictions		
Liabilities		
Accrued payroll and related benefits	$ 21,426,886	$ 19,927,185
Accounts payable and accrued expenses	1,354,952	2,593,141
Deferred rent	23,134,870	23,575,917
Total liabilities	45,916,708	46,096,243
Net Assets without donor restrictions		
Undesignated	112,405,670	124,805,523
Statutorily designated for scholarships in Section 109(c)(2) of the Sarbanes-Oxley Act	13,438,337	15,624,744
Statutorily designated for sequestration	17,153,964	17,000,000
Total net assets without donor restrictions	142,997,971	157,430,267
TOTAL LIABILITIES AND NET ASSETS WITHOUT DONOR RESTRICTIONS	**$188,914,679**	**$203,526,510**

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF ACTIVITIES

For the years ended December 31, 2018 and 2017

	2018	2017
Changes in net assets without donor restrictions		
Net operating revenue		
Issuer accounting support fee	$205,350,800	$232,622,500
Broker-dealer accounting support fee	29,885,800	35,345,300
Registration and annual fees from PCAOB-registered public accounting firms	1,437,500	1,481,000
Total net operating revenue	236,674,100	269,448,800
Operating expenses		
Program services		
Registration and inspections	147,274,987	151,675,943
Enforcement	22,748,731	23,444,650
Standard setting	8,977,809	10,183,463
Economic and risk analysis	15,682,305	15,951,461
Board and related activities	9,703,923	8,811,765
Supporting activities		
Administration and general	33,723,484	33,428,873
Information technology	13,449,118	9,727,755
Total operating expenses	251,560,357	253,223,910
Operating (Loss) Income	(14,886,257)	16,224,890
Other Revenue (Expenses)		
Interest income and other	2,640,368	1,360,944
Monetary penalties, net	1,104,469	4,865,636
Scholarship payments, net	(3,290,876)	(1,646,228)
Total other revenue	453,961	4,580,352
(Decrease) increase in net assets without donor restrictions	(14,432,296)	20,805,242
Net Assets without donor restrictions—Beginning of Year	157,430,267	136,625,025
Net Assets without donor restrictions—End of Year	$142,997,971	$157,430,267

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Cash received from issuers	$204,976,793	$ 232,722,980
Cash received from brokers and dealers	29,705,152	35,177,882
Cash received from registered public accounting firms	1,427,499	1,488,920
Interest income and other	2,549,708	1,266,139
Cash received from monetary penalties and interest, net	1,854,449	8,130,627
Cash paid to fund scholarships (net of refunds)	(3,290,876)	(1,646,228)
Cash paid to suppliers and employees	(247,239,025)	(251,092,545)
Net cash (used in) provided by operating activities	**(10,016,300)**	**26,047,775**
Cash Flows from Investing Activities		
Purchases of furniture and equipment, leasehold improvements, and technology	(2,354,973)	(5,868,484)
Proceeds from disposals of technology equipment	—	6,717
Purchases of short-term investments	(185,502,774)	(166,015,002)
Proceeds from maturity of short-term investments	175,377,242	165,170,332
Net cash used in investing activities	**(12,480,505)**	**(6,706,437)**
(Decrease) Increase in Cash and Cash Equivalents, and Restricted Cash and Cash Equivalents	(22,496,805)	19,341,338
Cash and Cash Equivalents, and Restricted Cash and Cash Equivalents—Beginning of Year	62,194,056	42,852,718
Cash and Cash Equivalents, and Restricted Cash and Cash Equivalents—End of Year	$ 39,697,251	$ 62,194,056
Supplemental disclosures:		
Fixed asset purchases acquired but not paid for as of year-end	$ 30,155	$ 726,790
Fixed asset purchases acquired through the use of leasehold incentives	3,690,353	5,595,633
Leasehold incentives acquired through entering into new or amended leases	—	833,625
Cash paid during the year for:		
Unrelated business income taxes	$ 171,000	—

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1—ORGANIZATION

The Public Company Accounting Oversight Board (PCAOB) is a District of Columbia nonprofit corporation established by the Sarbanes-Oxley Act of 2002, as amended (the Sarbanes-Oxley Act) to oversee the audits of public companies and SEC-registered brokers and dealers in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

The SEC oversees us, with the authority to appoint Board members and to approve our rules, standards, and budget. The Sarbanes-Oxley Act established funding for our activities primarily through an annual accounting support fee assessed on issuers that is based on their relative average, monthly market capitalization, and on brokers and dealers based on their relative average, quarterly tentative net capital. The annual accounting support fee is also approved by the SEC.

Our operations consist of program services and supporting activities. Our program services for financial reporting purposes are: registration and inspections, enforcement, standard setting, economic and risk analysis, and Board and related activities. Our supporting activities are administration and general and information technology.

NOTE 2—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 (GAAP) and are presented pursuant to Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 958, *Not-for-Profit Entities* (ASC 958).

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14), to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's financial performance, cash flows, and liquidity. We adopted ASU 2016-14 effective January 1, 2018, on a retrospective basis, resulting in adjustments to the presentation of prior periods as well as enhanced disclosures. A summary of the changes to our financial statements and the accompanying notes related to the adoption of this standard includes:

- *Net Asset Classification and Related Disclosures*—ASU 2016-14 requires not-for-profits to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions. Our net assets are not subject to any donor-imposed restrictions, and therefore have been classified as net assets without donor restrictions. The implementation of this ASU did not result in any change to how we recognize net assets. See this Note and Note 7 for information regarding the composition of net assets and how other statutory restrictions affect the use of our resources.
- *Functional and Natural Expense Classification*—ASU 2016-14 requires that not-for-profits provide enhanced disclosures regarding the amount of expenses by both their functional (program services and supporting activities) and natural classification. We have reported our functional classification of expenses in the Statements of Activities and provided a reconciliation of the functional and natural classification of expenses in Note 8 to the financial statements.
- *Statement of Cash Flows*—ASU 2016-14 no longer requires the presentation or disclosure of the indirect method (reconciliation) for operating cash flows if using the direct method. Since we use the direct method, the Statements of Cash Flows no longer include the indirect method reconciliation.
- *Liquidity Disclosures*—ASU 2016-14 requires enhanced disclosures regarding how organizations manage their liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date. See this Note and Note 9 to the financial statements for those disclosures.

Cash and Cash Equivalents—The term cash and cash equivalents, as used in the accompanying financial statements, includes demand deposits in noninterest-bearing accounts with a domestic high-credit-quality financial institution, as well as investments in securities made pursuant to an overnight automated investment sweep agreement. Pursuant to this agreement, we invest excess cash at the end of each business day in a money market fund that invests in high-quality money market instruments (primarily U.S. Government/Agency obligations and repurchase agreements). All non-restricted highly liquid instruments purchased with an original maturity of three months or less are considered to be cash equivalents. Purchased money market fund shares are held by the financial institution, as agent, on an overnight basis and are liquidated by the financial institution on the next business day at an agreed-upon price. In the event of the financial institution's failure or default, we could experience a delay in disposing of such securities.

Restricted Cash and Cash Equivalents—The term restricted cash and cash equivalents, as used in the accompanying financial statements, consist primarily of cash that is expected to be used to fund our Scholarship Program, established pursuant to Section 109(c)(2) of the Sarbanes-Oxley Act; as well as funds held for the FASB under an agency agreement.

Short-term Investments—Our investments are recorded at fair value and consist of investments in U.S. Treasury bills that mature within one year of purchase. We estimate fair value based on pricing from observable trading activity for similar securities or from a third party pricing service; accordingly, we have classified these instruments as Level 2. Purchases and sales of securities are recorded on a trade-date basis. Interest income and net gains and losses are recorded on the accrual basis and are included in "Interest income and other" on the accompanying Statements of Activities.

Concentration Risk—Our cash is held in accounts with a single domestic high-credit-quality financial institution. Amounts held in these accounts that exceed the Federal Deposit Insurance Corporation insurable limit are uninsured. We mitigate this risk overnight through a daily overnight investment sweep agreement that invests excess cash in a money market fund comprised primarily of U.S. Government/Agency obligations and repurchase agreements.

Accounts and Other Receivables—Accounts and other receivables are carried at the amount billed or accrued, net of an allowance for doubtful accounts. The allowance for doubtful accounts is estimated based on management's review, specific identification and, to the extent applicable, historical experience.

Fair Value of Financial Instruments—The fair values of cash and cash equivalents, restricted cash and cash equivalents, accounts and other receivables, and accounts payable approximate their carrying values due to the short-term nature of these items.

Property and Equipment—Furniture and equipment, leasehold improvements, and technology are stated at cost less accumulated depreciation and amortization, computed using the straight-line method utilizing a half-year convention. Furniture and equipment and technology are depreciated over their estimated useful lives of three to five years. Leasehold improvements are amortized over the lesser of the term of the lease or the life of the asset. Costs incurred during the application development stage for internal-use software are capitalized and amortized using the straight-line amortization method over the estimated useful life of the applicable software. Repairs and maintenance are charged to expense when incurred.

Revenue Recognition—The Sarbanes-Oxley Act provides for our funding through the assessment of an annual accounting support fee. The Sarbanes-Oxley Act also provides that we shall assess and collect registration and annual fees and may impose monetary penalties.

Annual Accounting Support Fees—Annual accounting support fees are assessed on issuers, as defined in the Sarbanes-Oxley Act, and on brokers and dealers registered with the SEC. The accounting support fee is established annually by the Board based on our approved operating budget for each calendar year and adjusted for the change in amounts estimated to fund our operations for the first five months of the subsequent year, as well as other statutory adjustments. It is subject to SEC approval. The accounting support fee is recognized as operating revenue in the year in which it is assessed.

Registration Fees—Each public accounting firm must pay a registration fee when it applies for registration with us. Registration fees are recognized as operating revenue in the year the application is submitted.

Annual Fees—All registered public accounting firms are required to file annual reports with us and pay annual fees to us. Annual fees are recognized as operating revenue in the year they are assessed.

Monetary Penalties—Our sanctions may include monetary penalties pursuant to Section 105 of the Sarbanes-Oxley Act. Monetary penalties are recognized as other revenue in the year the sanctions are effective.

Leasehold Incentives—Leasehold incentives represent amounts that our landlords have contractually agreed to pay for leasehold improvements. We may also use portions of the leasehold incentives for other purposes, as provided for in the respective lease agreements (e.g., offset of rent or purchase of furniture). These incentives are recognized as an asset when we obtain control of the leased space to which the incentives relate. As construction is completed, the construction costs are capitalized as leasehold improvements. The leasehold incentive is reduced as the related construction amounts are paid or reimbursed by the landlord.

Deferred Rent—We recognize rent on a straight-line basis over the lease term. The differences between rent expense recognized and rental payments made, as stipulated in the leases, are recognized as increases or decreases to deferred rent.

In addition, leasehold incentives obligated under facilities leases are recorded as deferred rent when we obtain control of the leased space to which the leasehold incentives due from the landlord relate. Deferred rent related to leasehold incentives is amortized on a straight-line basis over the lease term as a reduction of rent expense.

Monetary Penalties, Net and Scholarship Payments, Net—We report all funds generated from the collection of monetary penalties (net of bad debt expenses) as increases in designated net assets without donor restrictions in the Statements of Financial Position, and all funding for the merit scholarships (net of refunds for unused amounts) as decreases in designated net assets without donor restrictions in the Statements of Financial Position. Amounts collected are required to be used to award merit scholarships to students of accredited accounting degree programs, after congressional appropriation for such use of the monetary penalties. Amounts not paid out as of year-end are included in restricted cash and cash equivalents.

Cash Held for Others under Agency Agreement—We served as the collection agent for invoicing and collecting the 2018 and 2017 FASB accounting support fee. Balances not remitted to the FASB by year-end are included in restricted cash and cash equivalents with a corresponding amount included in accounts payable and accrued expenses. Fees for serving as the collection agent are included in "Interest income and other" in the accompanying Statements of Activities. Under this agreement, we collected $29.0 million and remitted $28.8 million in 2018, and in 2017, collected $27.7 million and remitted $27.5 million, which are reported on a net basis as cash flows from operations in "Interest income and other" in the accompanying Statements of Cash Flows.

Taxes—We are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Effective January 1, 2018, new Internal Revenue Code Section 512(a)(7) requires tax-exempt organizations to include qualified transportation benefits provided to their employees as unrelated business taxable income. As a result of providing such benefits, we recorded a $171,000 provision for unrelated business income taxes as part of administration and general expenses in the Statement of Activities for 2018.

Reclassifications—As part of the adoption of ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,* there were certain reclassifications of operating expenses in the prior year Statement of Activities to conform with the presentation in the current-year financial statements. These reclassifications had no effect on previously reported operating expenses in total.

Use of Estimates—The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements and accompanying notes. These estimates and assumptions are based on management's best knowledge of current and future events. Estimates and assumptions are used in accounting for, among other items, the allowance for doubtful accounts, useful lives of property and equipment, and allocation of expenses to program services and supporting activities. Actual results could differ from these estimates.

Statement of Cash Flows—We use the direct method of reporting net cash provided by or used by operating activities in the Statements of Cash Flows.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230)—Restricted Cash (a consensus of the FASB Emerging Issues Task Force)* (ASU 2016-18), to provide guidance on the presentation of restricted cash or restricted cash equivalents in the Statements of Cash Flows in efforts to reduce diversity in practice. This guidance requires that restricted cash be included with cash and cash equivalents when reconciling the beginning and end-of-period total amounts shown in the Statements of Cash Flows so that cash flows that directly affect restricted cash will be presented in the Statement of Cash Flows. This guidance must be applied retrospectively to all periods presented.

We adopted ASU 2016-18 effective January 1, 2018 with no changes to the amount of cash provided by or used in operations, investing, or cash flow activities in the Statements of Cash Flows. We have historically reflected restricted cash amounts in the Statements of Cash Flows.

Cash and cash equivalents and restricted cash and cash equivalents reported within the Statements of Financial Position that sum to the total of the same such amounts shown in the Statements of Cash Flows are as follows:

	2018	2017
Cash and cash equivalents	$26,217,357	$47,269,002
Restricted cash and cash equivalents	13,479,894	14,925,054
Total cash and cash equivalents, and restricted cash and cash equivalents shown in the Statements of Cash Flows	$39,697,251	$62,194,056

Accounting Pronouncements Issued But Not Yet Adopted—In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* which affects virtually all aspects of an entity's revenue recognition. The core principle of the new standard is that revenue should be recognized to depict the transfer of promised goods or service to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for our 2019 fiscal year. Management is evaluating the impact of this new standard on our financial statements, including possible transition alternatives and the effect on the accounting for potential nonreciprocal transactions.

In June 2018, the FASB issued ASU No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* to clarify and improve the scope and the accounting guidance for contributions received and contributions made. This guidance clarifies how an entity determines (1) whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities,* or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for our 2019 fiscal year. Management is currently evaluating the impact of ASU 2018-08 and this new standard on our financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842),* which is intended to improve financial reporting about leasing transactions. ASU 2016-02 will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with GAAP, the recognition, measurement, and presentation of expenses and cash flows will depend on its classification as a finance or operating lease. The new standard will be effective for our 2020 fiscal year. We are evaluating the impact of the pending adoption of the new standard on the financial statements. Upon adoption of the ASU, right-of-use assets and corresponding liabilities are expected to be material.

In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract,* which requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in Accounting Standards Codification 350-40 to determine which implementation costs to defer and recognize as an asset. ASU 2018-15 generally aligns the guidance on recognizing implementation costs incurred in a cloud computing arrangement that is a service contract with that for implementation costs incurred to develop or obtain internal-use software, including hosting arrangements that include an internal-use software license. The new standard will be effective for our 2021 fiscal year; early adoption is permitted. We are currently evaluating the effect that this ASU will have on our financial statements.

NOTE 3—ACCOUNTS AND OTHER RECEIVABLES

Accounts receivable consist of the following as of December 31, 2018 and 2017:

	2018	2017
Accounts receivable—issuer and broker-dealer accounting support fees and annual fees	$1,491,037	$ 676,033
Accounts receivable—Other	278,552	512,479
Other receivables—monetary penalties	570,593	1,015,573
	2,340,182	2,204,085
Less: allowance for doubtful accounts	(909,178)	(496,696)
Accounts and other receivables, net of allowance	$1,431,004	$1,707,389

NOTE 4—FURNITURE AND EQUIPMENT, LEASEHOLD IMPROVEMENTS, AND TECHNOLOGY

Furniture and equipment, leasehold improvements, and technology consist of the following as of December 31, 2018 and 2017:

	2018	2017
Technology		
Hardware	$ 9,507,232	$ 12,837,619
Purchased and developed software	13,180,039	14,818,810
Leasehold improvements	22,106,634	26,285,199
Furniture and equipment	8,108,163	10,112,982
Technology development in process	634,582	383,254
Construction in process	—	1,775,771
	53,536,650	66,213,635
Accumulated depreciation and amortization	(32,995,959)	(46,814,711)
Furniture and equipment, leasehold improvements, and technology, net	$ 20,540,691	$ 19,398,924

Depreciation and amortization expense was approximately $4.5 million and $4.1 million for the years ended December 31, 2018 and 2017, respectively.

NOTE 5—LEASE COMMITMENTS

As of December 31, 2018, we had long-term leases for office space that expire at various dates through 2028. Most of these leases contain escalation clauses and an option to renew at prevailing market rental values.

Under the Washington, D.C. lease, which expires in 2028, we utilized certain leasehold incentives of approximately $4.1 million and $4.8 million, for the years ended December 31, 2018 and 2017, respectively, that were paid for by the landlord, and principally comprised of leasehold improvements.

During 2017, we recognized an increase in leasehold incentives of approximately $0.8 million as the related space came under our control. During 2017, leasehold improvements totaling approximately $1.2 million were paid for by the landlords of the Atlanta, Chicago, and Irving offices.

Rent is expensed using the straight-line method over the respective lease terms. Rent expense for the years ended December 31, 2018 and 2017 was $16.4 million and $17.2 million, respectively. Minimum rental commitments for our office leases exceeding one year as of December 31, 2018 are as follows:

Year Ending December 31,	
2019	$ 16,361,008
2020	16,886,096
2021	17,230,441
2022	17,583,024
2023	17,958,102
Thereafter	74,647,848
Total minimum lease payments	$160,666,519

As of December 31, 2018, we had short-term leases for office space in Boston, Mass.; Houston, Texas; Tampa, Fla.; Fort Lauderdale, Fla.; and Los Angeles, Calif., under leases that expire in 2019. At the end of 2017, we reduced the amount of leased space in each of these locations and elected not to renew a short-term lease in Philadelphia, Pa. Rental commitments for temporary office spaces having remaining lease terms of one year or less in 2019 were $932,892.

NOTE 6—RETIREMENT BENEFIT PLAN

We have a defined contribution retirement plan that covers all eligible employees. For the years ended December 31, 2018 and 2017, we matched 100% of employee contributions up to 7% of eligible compensation. Our contributions vest immediately. Our contributions to employees' accounts were $9.1 million for each of the years ended December 31, 2018 and 2017.

NOTE 7—NET ASSETS WITHOUT DONOR RESTRICTIONS

Our net assets are not subject to any donor-imposed restrictions. Included in this amount is a working capital reserve that we maintain to fund our operations during the five-month period prior to the collection of the accounting support fee for the current year. Our net assets also include funds designated for specific uses, as described below.

Designated for the PCAOB Scholarship Program—The Statements of Financial Position include statutorily designated funds for the PCAOB Scholarship Program, established by Section 109(c)(2) of the Sarbanes-Oxley Act. The Sarbanes-Oxley Act authorizes us to impose monetary penalties and requires us to use those penalties to award merit scholarships to students of accredited accounting degree programs, after congressional appropriation for that use of the monetary penalties. We awarded 332 and 167 merit-based scholarships of $10,000 each to eligible students for the 2018–2019 and 2017–2018 academic years, respectively. Restricted cash and cash equivalents included approximately $13.4 million and $14.9 million as of December 31, 2018 and 2017, respectively, to be used for merit scholarships.

The activity of the statutorily designated funds for the years ended December 31, 2018 and 2017, is as follows:

Statutorily designated funds, as of December 31, 2016	$12,405,336
Monetary penalties and interest assessed in 2017, net	4,865,636
Less scholarship payments for the 2017–2018 academic year	(1,670,000)
Refund of unused scholarship funds received in 2017	23,772
Statutorily designated funds, as of December 31, 2017	15,624,744
Monetary penalties and interest assessed in 2018, net	1,104,469
Less scholarship payments for the 2018–2019 academic year	(3,320,000)
Refund of unused scholarship funds received in 2018	29,124
Statutorily designated funds, as of December 31, 2018	$13,438,337

Of the statutorily designated funds as of December 31, 2018 and 2017, there were approximately $9.1 million and $8.1 million, respectively, not yet appropriated by Congress and therefore not yet available for distribution of scholarships.

Designated for Sequestration—The Statements of Financial Position include statutorily designated funds for sequestration. In March 2013, the Office of Management and Budget (OMB) determined that we are subject to sequestration pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, 2 U.S.C. § 901a. In November 2013, OMB determined that our sequestered funds represent temporary reductions, such that funds that are sequestered in one year become available in subsequent years.

On May 23, 2017, OMB issued a report, "OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2018," specifying that 6.6% of our approved 2018 budget funds were subject to sequestration, which calculates to $17.2 million. These sequestered funds remained unspent as of December 31, 2018, and are included in short-term investments in the accompanying Statements of Financial Position. In a separate report issued on February 12, 2018, "OMB Report to the

Congress on the Joint Committee Reductions for Fiscal Year 2019," OMB specified that our sequestration percentage in 2019 was 6.2% of our approved 2019 budget, which calculates to $17.0 million. In 2019, we will use the $17.2 million sequestered in 2018 to offset the $17.0 million sequestered in 2019. The excess reduces our approved 2019 accounting support fee by $0.2 million. The scholarship funds were not subject to sequestration in 2018 or 2017.

NOTE 8—EXPENSES BY PROGRAM SERVICES AND SUPPORTING ACTIVITIES

The Statements of Activities reflect program services related to registration and inspections, enforcement, standard setting, economic and risk analysis, and Board and related activities. Program services consist of the following:

- Registration and Inspections (DRI) executes the Board's registration and inspections authority under the Sarbanes-Oxley Act. DRI processes, and makes recommendations to the Board, on applications from public accounting firms to register with the PCAOB. DRI also inspects registered public accounting firms to assess compliance with the Sarbanes-Oxley Act, the rules of the Board and the Securities and Exchange Commission, and professional standards, in connection with the performance of audits, issuance of audit reports, and related matters involving issuers and brokers and dealers audited by the registered firms.
- Enforcement conducts investigations and disciplinary proceedings concerning registered public accounting firms and associated persons of such firms related to possible violations of the Sarbanes-Oxley Act, the rules of the Board, the provisions of the securities laws related to the preparation and issuance of audit reports and the obligations of accountants with respect to audit reports, or professional standards.
- Standard setting advises the Board on establishing or adopting auditing, quality control, ethics, independence, and attestation standards applicable to registered public accounting firms in the preparation and issuance of audit reports as required by the Sarbanes-Oxley Act or as may be necessary for the protection of investors and the public interest.
- Economic and risk analysis conducts economic analysis and research, risk assessment, and data analysis to inform our other program services.
- Board and related activities primarily consists of the programmatic activities of the Board and the Office of International Affairs (OIA). Supported by the other program services, the Board issues inspection reports on registered public accounting firms; approves registration applications of public accounting firms; initiates formal investigations and enforcement actions; and establishes or adopts auditing, quality control, ethics, independence and attestation standards for registered public accounting firms. Under the direction and supervision of the Board, OIA promotes our mission internationally by developing and fostering bilateral relationships and negotiating bilateral cooperative arrangements with non-U.S. regulators to facilitate our international inspections and investigations.

Program expenses include salaries, benefits, occupancy, program-specific technology costs, and other direct and indirect operating expenses. The Statements of Activities also reflect costs associated with supporting activities such as accounting and finance, legal, human resources, and information technology. Indirect costs, including certain occupancy and depreciation costs, are allocated to program services and supporting activities proportionately based on numbers of personnel.

The Statements of Activities report certain categories of expenses that are attributable to more than one program service or supporting activity. To reflect this fact, these expenses are allocated on a reasonable basis that is consistently applied. In particular, these expenses have been allocated to program services and supporting activities based on direct usage or benefit where identifiable, with the remainder allocated on a pro rata basis of headcount or other measures such as time and effort. The expenses that are allocated in this manner include: personnel costs, including fringe benefits and payroll taxes; occupancy costs; computing, network and telecommunications expenses; and depreciation. We consider the expense allocation methodology and results to be reasonable for all periods presented.

For the year ended December 31, 2018

	PROGRAM SERVICES						SUPPORTING ACTIVITIES			
	Registration and inspections	Enforcement	Standard setting	Economic and risk analysis	Board and related activities	Programs Subtotal	Administration and general	Information technology	Supporting Subtotal	**Total**
Personnel costs	$113,614,630	$18,238,441	$7,322,861	$11,539,566	$8,196,910	$158,912,408	$22,707,427	$ 9,436,821	$32,144,248	$191,056,656
Occupancy costs	9,933,040	2,013,249	665,796	1,303,947	589,510	14,505,542	2,883,075	850,908	3,733,983	18,239,525
Travel expenses	11,268,644	133,789	84,622	124,839	269,843	11,881,737	187,260	55,015	242,275	12,124,012
Computing, network, and telecommunications expenses	5,399,711	750,859	206,190	872,917	187,099	7,416,776	1,436,302	946,834	2,383,136	9,799,912
Professional and consulting fees	3,778,083	627,695	50,881	115,468	-	4,572,127	3,328,528	1,627,954	4,956,482	9,528,609
Data subscriptions, insurance, and other expenses	1,137,072	650,340	263,992	1,464,162	333,594	3,849,160	2,343,162	160,821	2,503,983	6,353,143
Depreciation	2,143,807	334,358	383,467	261,406	126,967	3,250,005	837,730	370,765	1,208,495	4,458,500
Total operating expenses	**$147,274,987**	**$22,748,731**	**$8,977,809**	**$15,682,305**	**$9,703,923**	**$204,387,755**	**$33,723,484**	**$13,449,118**	**$47,172,602**	**$251,560,357**

For the year ended December 31, 2017

	PROGRAM SERVICES						SUPPORTING ACTIVITIES			
	Registration and inspections	Enforcement	Standard setting	Economic and risk analysis	Board and related activities	Programs Subtotal	Administration and general	Information technology	Supporting Subtotal	**Total**
Personnel costs	$119,614,287	$19,100,002	$ 8,434,380	$11,806,002	$7,427,075	$166,381,746	$22,489,458	$6,550,922	$29,040,380	$195,422,126
Occupancy costs	10,207,031	2,015,866	800,518	1,249,589	535,572	14,808,576	2,962,794	843,543	3,806,337	18,614,913
Travel expenses	11,298,729	180,334	190,508	131,988	362,961	12,164,520	166,250	50,430	216,680	12,381,200
Computing, network, and telecommunications expenses	4,944,560	625,761	215,010	730,477	166,726	6,682,534	1,166,400	737,257	1,903,657	8,586,191
Professional and consulting fees	2,579,949	553,231	81,840	121,458	-	3,336,478	3,669,739	1,139,733	4,809,472	8,145,950
Data subscriptions, insurance, and other expenses	988,951	750,788	249,409	1,290,485	255,647	3,535,280	2,323,878	107,095	2,430,973	5,966,253
Depreciation	2,042,436	218,668	211,798	621,462	63,784	3,158,148	650,354	298,775	949,129	4,107,277
Total operating expenses	**$151,675,943**	**$23,444,650**	**$10,183,463**	**$15,951,461**	**$8,811,765**	**$210,067,282**	**$33,428,873**	**$9,727,755**	**$43,156,628**	**$253,223,910**

NOTE 9—LIQUIDITY

We are primarily supported by accounting support fees assessed, with certain assets subject to statutory restrictions or contractual restrictions under an agency agreement. As part of our liquidity management, our policy is to structure our financial assets to be available as our general expenditures, liabilities, and other obligations come due.

At December 31, 2018, we held $126.0 million in cash and cash equivalents ($26.2 million) and short-term investments ($99.8 million) that were available within one year to pay general expenditures, with the remaining amount of short-term investments ($17.2 million) designated for sequester which will be used to offset the $17.0 million sequestered in 2019 (as discussed in Note 7 of the financial statements). At December 31, 2018, $4.4 million of restricted cash and cash equivalents was available to pay for future scholarship awards, with an additional $9.1 million subject to congressional appropriation prior to their use to fund scholarships (as discussed in Note 7 of the financial statements).

NOTE 10—SUBSEQUENT EVENTS

We have evaluated subsequent events through March 26, 2019, which represents the date the audited financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment or disclosure in the financial statements.

2018 MANAGEMENT'S ASSESSMENT

FINANCIAL REPORTING MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The PCAOB's financial reporting management, including the Chief Administrative Officer and Acting Director, Chief Financial Officer, under the direction of the Chairman (collectively, "financial reporting management"), are responsible for establishing and maintaining adequate internal control over financial reporting. 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 in the United States of America.

A company'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 accounting principles generally accepted in the United States of America and that receipts and expenditures of the company are being made only in accordance with authorizations of management of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company'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. The PCAOB's financial reporting management assessed the effectiveness of the PCAOB's internal control over financial reporting as of December 31, 2018. In making this assessment, financial reporting management used the criteria established in *Internal Control—Integrated Framework* (2013 version), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, the PCAOB's financial reporting management concluded that the organization's internal control over financial reporting was effective as of December 31, 2018.

March 26, 2019

William D. Duhnke III
CHAIRMAN

Suzanne M. Kinzer
CHIEF ADMINISTRATIVE OFFICER

Kevin Borkowski
ACTING DIRECTOR, CHIEF FINANCIAL OFFICER