2019 Annual Report

Public Company Accounting Oversight Board

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ABOUT THE PCAOB

The PCAOB is a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports. The PCAOB also oversees the audits of brokers and dealers, including compliance reports filed pursuant to federal securities laws, to promote investor protection.

The five members of the PCAOB Board, including the Chairman, are appointed to staggered five-year terms by the U.S. Securities and Exchange Commission (SEC), after consultation with the Chair of the Board of Governors of the Federal Reserve System and the Secretary of the Treasury. The SEC has oversight authority over the PCAOB, including the approval of the Board's rules, standards, and budget.

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.

PCAOB BY THE NUMBERS

1,796
PCAOB-registered
public accounting firms

91 Jurisdictions
across the globe with PCAOB-registered public accounting firms

597
PCAOB-registered
firms audit
12,828
issuers that file financial statements with the SEC or otherwise play a substantial role in those audits

7,339
U.S. public companies,
representing approximately
$45.533
trillion in global market capitalization

416
PCAOB-registered
firms audit
3,596
SEC-registered
broker-dealers

As of December 31, 2019

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MESSAGE FROM THE CHAIRMAN

The PCAOB's 2019 annual report summarizes our operations and financial results from fiscal year 2019. It details key initiatives pursued by the Board and our dedicated staff in support of our five strategic goals during the past year. Following the extensive strategic planning, outreach, and organizational assessment we conducted in 2018, we focused much of 2019 on advancing the changes necessary to support these goals and moving the PCAOB along the organizational maturity curve.

We took substantial steps in 2019 towards implementing our vision to transform the PCAOB into a trusted leader that promotes high quality auditing through forward-looking, responsive, and innovative oversight. Specifically, we (1) made changes to improve the effectiveness of our oversight activities, (2) expanded our stakeholder outreach and improved our communications, (3) made a number of additions and enhancements to our operations, and (4) took steps towards optimizing our culture.

When we adopted our strategic plan in 2018 based on extensive external and internal feedback, we understood it would take several years to accomplish our goals. That remains true today, which is why the Board collectively reaffirmed our commitment to our five-year strategic vision, values, and goals in 2019. We are encouraged by the positive feedback we are receiving from our stakeholders on our strategic direction and the advancements made to date, particularly as it relates to the usefulness of our information and the enhanced engagement by the Board and staff. We have made significant progress, and we remain committed to continuing that progress during 2020.

As the PCAOB's Chairman, I look forward to continuing to work collaboratively with my fellow Board Members, the U.S. Securities and Exchange Commission, and the PCAOB staff to fulfill our statutory mandate.

Respectfully,

William D. Duhnke III
Chairman
Public Company Accounting Oversight Board
Washington, DC, March 24, 2020

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STRATEGIC PLAN

Each year, the PCAOB adopts a strategic plan with a five-year outlook. The Board is working to achieve each of our five strategic goals and corresponding objectives through a series of initiatives with the goal of transforming the way we conduct business to more effectively fulfill our mandate. These initiatives, many of which are outlined in this annual report, range from programmatic reviews and process redesigns to enhancements to our organizational culture and innovation in technology. Our initiatives are aligned with our five core values, which we expect to be manifested in our behaviors and the outcome of our work.

PCAOB Five-Year Strategic Goals

Goal One

Drive improvement in the quality of audit services through a combination of prevention, detection, deterrence, and remediation.

Goal Two

Anticipate and respond to the changing environment, including emerging technologies and related risks and opportunities.

Goal Three

Enhance transparency and accessibility through proactive stakeholder engagement.

Goal Four

Pursue operational excellence through efficient and effective use of our resources, information, and technology.

Goal Five

Develop, empower, and reward our people to achieve our goals.

Goal One: Drive improvement in the quality of audit services through a combination of prevention, detection, deterrence, and remediation.

Improving audit quality remains at the heart of the PCAOB's strategic efforts. The Board worked in 2019 to advance a number of initiatives designed to advance audit quality through our oversight activities and by leveraging our Office of Economic and Risk Analysis (ERA). To drive improvement in the quality of audit services, the Board focused not only on detecting audit deficiencies, but also preventing them from occurring in the first place.

The Board's focus on firms' quality control systems is one of the ways we worked to advance our goal to improve audit quality in 2019. For example, on December 17, 2019, the Board voted to issue for public comment a concept release to seek stakeholder input on a potential approach to revising the PCAOB's quality control (QC) standards. The Board believes that effective QC systems within an audit firm are crucial for the consistent performance of high quality audits.

Below we highlight the key objectives under Goal One of our strategic plan and the work we accomplished in 2019 to advance each objective.

Objective One: Conduct inspection activities to facilitate more timely and relevant feedback to our stakeholders.

We are in the midst of a multi-year transformation effort to improve the effectiveness and efficiency of our inspections program. These efforts include:

- **Focusing on quality control in inspections.** We established a new, dedicated quality control inspections team to review and re-baseline our understanding of firms' quality control systems. In 2019, the team focused on reaffirming our understanding of the approaches and controls each of the six largest U.S. firms has in place to achieve audit quality objectives and mitigate audit quality risks. Having a dedicated team looking across the firms in a "horizontal review" has given us greater insight into quality control across the profession. During our first year of increased focus on firms' systems of quality control, we have seen that firms are not all in the same place with respect to their quality control systems; some are more mature than others in understanding and responding to the risks they face. Moving forward, we expect our increased focus on quality control work will influence other aspects of our inspections, including how we select individual engagements, the focus areas we review within audits selected, and how we consider firms' remedial actions. What we observe will also inform potential future standard-setting activities.

- **Establishing a "target team" of inspectors.** We deployed our first ever "target team" of PCAOB inspectors to look at selected timely and important issues across the profession. One of our areas of focus was on firms' performance in conducting multi-location audits. Our target team reviewed the audit methodologies of the six largest U.S. firms and how the firms applied those methodologies across multi-location audits.

- **Creating an Inspections Quality Group.** The Inspections Quality Group has been tasked with evaluating the consistency, quality, and effectiveness of our inspections activities. Their efforts will touch all parts of our inspections process, from methodology and planning to execution, reporting, and remediation. As the PCAOB places an increased focus on a firms' systems of quality control—both in our inspections and through potential standard-setting—it is only fitting that we also evaluate our own internal quality control functions. This group's work in 2019 provided valuable insights that will help shape our approach going forward. We expect that the work of this group will contribute to improved quality, consistency, and effectiveness in our inspections.

- **Communicating good practices.** As a part of the Board's efforts to prevent deficiencies from occurring, PCAOB inspections staff began to communicate the "good practices" observed in our inspections that could promote or enhance audit quality. We have received feedback from auditors that they benefit from learning about "good practices" from the PCAOB so that their work can be modeled and implemented where applicable. We expect that inspections staff will continue to collect and communicate such practices in the future.

- **Revising our inspections report format.** The Board and staff redesigned our inspections report format to better meet the information needs of investors and audit committee members, as well as the public. Specifically, we have heard in our outreach that the previous long-standing format is difficult to read and understand, and that it relies too much on boilerplate language. With that feedback in mind, initial changes to our inspections report format aim to provide more information that is relevant to our stakeholders. The new reports are expected to be released in the first half of 2020. This is an iterative process, and we expect to continue to refine the reports in future years.

Objective Two: Better leverage economic and risk analysis to more effectively set standards, rules, and guidance.

Our key efforts in 2019 related to goal one, objective two of the strategic plan include:

- **Reorganizing our Office of Economic and Risk Analysis.** We reorganized ERA to integrate the office more effectively into the PCAOB's oversight work and to support the execution of the Board's strategic plan. Our reorganization also aims to create greater collaboration across staff with expertise in economics, finance, accounting, and data analysis.

- **Conducting an interim analysis and post-implementation review of critical audit matters (CAMs).** The new requirements for auditors to communicate CAMs is the most significant change to the auditor's report in more than 70 years. The Board is committed to fully understanding the impact of the requirements on audit firms, public companies, audit committees, and investors. To do this, ERA is conducting an interim analysis and post-implementation review of CAM requirements. In 2019, staff began its interim analysis—which is expected to be published in late 2020—to evaluate whether early evidence from implementation of CAM requirements is suggestive of significant benefits or costs, or unintended consequences. As part of this analysis, we also plan to gain an initial understanding of how auditors responded to CAM requirements, whether (and how) investors are using CAM communications, and audit committee and preparer experiences. Our interim analysis will inform our post-implementation review, which will be completed after a reasonable period of time following the full implementation of requirements. These efforts are just one of the many ways the Board is monitoring the implementation of CAMs. For example, in 2019 we shared publicly our initial inspections observations regarding firms' compliance with the new requirements, as well as an update on our outreach and data analysis activities, in a CAMs Spotlight document.

Objective Three: Enforce accountability and deter improper conduct by addressing violations of PCAOB standards and rules, and related federal securities laws.

The PCAOB's enforcement and investigative efforts are prioritized in a manner that addresses those issues that pose the greatest risk to investors and are most likely to deter improper conduct. In 2019, we continued to emphasize investigating significant audit failures.

We also issued settled orders that covered higher priority areas, including significant audit violations involving a lack of due professional care and professional skepticism, breaches of auditor independence rules, improper alterations to audit documentation, and non-cooperation with our inspections. Our orders addressed serious auditor misconduct at large and small firms and involved both domestic and non-U.S. auditors.

For all of our higher priority areas, we focused on quality control deficiencies and getting to the root cause of identified violations. In 2019, we brought twelve settled cases that required firms to improve their quality control policies and procedures.

PCAOB Enforcement by the Numbers

30 settled disciplinary orders issued

27 individuals sanctioned

19 audit firms sanctioned

17 orders involving U.S. auditors

13 orders involving non-U.S. auditors

13 orders involving the six largest global accounting firm networks

17 orders involving smaller accounting firms

January 1, 2019 – December 31, 2019

Objective Four: Determine, develop, and communicate indicators of audit quality.

Our outreach and oversight activities—and our inspections in particular—yield a significant amount of data that helps inform our work to determine, develop, and communicate indicators of audit quality. Staff in ERA worked in 2019 to effectively analyze the data we have obtained to further identify and communicate factors that correlate with the quality of audit services. They also began studying the usage and usefulness of indicators of audit quality to audit committees, investors, and audit firms.

In 2019, we spoke with approximately 400 audit committee chairs as a part of our inspections process. During those conversations, many audit committee chairs shared with us their views on measures they associate with audit quality. We issued a document on what we frequently heard from audit committee chairs during those conversations, which included those measures as well as perspectives on what is working well to help improve audit quality. The feedback and input we receive from audit committees and other stakeholders on this topic is valuable and will be taken into account as we work to pursue this objective.

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Board Viewpoint

Driving consistently high quality auditing is key to fulfilling the PCAOB’s investor protection mission. While audit quality has improved over time, more needs to be done. Increasing the focus of firms on their own quality control practices promotes a preventative regulatory approach and has real potential to deliver significant improvement in audit quality.

Duane M. DesParte
Board Member

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Goal Two: Anticipate and respond to the changing environment, including emerging technologies and related risks and opportunities.

The financial reporting landscape is constantly evolving, and the Board is committed to staying informed of the changes in order to appropriately respond to them. One way that we address current or emerging audit issues is by PCAOB staff developing a research agenda and working on standard-setting projects.

In 2019, we pursued several initiatives related to emerging technologies. We also continued to make progress on our project to understand and consider investors' audit expectations. Below we highlight the key objectives under Goal Two of our strategic plan and the work we accomplished in 2019 to advance each objective.

2019 PCAOB Research and Standard-Setting Project Agenda

In 2019, the Board prioritized two key projects on its research agenda:

- **Quality Control**
- **Data and Technology**

After issuing a concept release on potential changes to the PCAOB's quality control standards, the quality control project was moved from our research agenda to our standard-setting agenda. The Board plans to prioritize this project in 2020 as well as review the agenda as a whole.

Objective One: Assess and address the impact of emerging technologies on the quality of audit services.

The PCAOB's data and technology research project seeks to assess whether there is a need for guidance, changes to PCAOB standards, or other regulatory actions in light of the increased use of data analytics and emerging technology-based tools by auditors and preparers. Staff's activities are informed by the Board's Data and Technology Task Force and other oversight activities.

In 2019, staff assessed how the use of technology tools by both auditors and preparers is evolving, in part by participating in over 40 meetings with stakeholders. Staff also obtained a deeper understanding of how auditors use technology to identify and assess risks of material misstatement. Staff analyzed several PCAOB auditing standards and sought input from members of the Data and Technology Task Force on those standards.

Objective Two: Understand and consider investors' audit expectations.

In 2019, staff in ERA began working to more fully understand investors' expectations of the audit. Staff initially focused their work on analyzing how different types of investors use audited financial statements and audit reports, as well as on identifying and assessing gaps or differences in investor expectations. Staff will continue working on this project in 2020.

Objective Three: Assess the changing information security environment and understand the related risks.

Through our oversight work, we continue to monitor the changing information security environment, including cybersecurity, and have worked to report out what we have observed in our inspections on this topic. In 2019, we issued a Staff Preview of our 2018 Inspections Observations, which included a section on our observations regarding the use of technology.

> Board Viewpoint
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> **Our mission to protect investors and further the public interest in informative, accurate, and independent audit reports demands that we stay abreast of emerging technologies as well as investors' expectations of the audit.**
>
> **J. Robert Brown, Jr.**
> Board Member

Goal Three: Enhance transparency and accessibility through proactive stakeholder engagement.

One of the Board's top priorities is to enhance our external communications and stakeholder engagement, and we made significant progress in this area during 2019. Through the creation of the Office of External Affairs, which was formed in late 2018, we have worked to align our communications and stakeholder engagement strategies with the Board's vision. Below we highlight the key objectives under Goal Three of our strategic plan and the work we accomplished in 2019 to advance each objective.

Objective One: Improve the timeliness, usefulness, and clarity of PCAOB information.

In 2019, we made meaningful progress towards improving our external publications with the aim of making our content more timely, clear, and useful. The feedback we have received through surveys and outreach indicate that our efforts have improved readability of PCAOB products, and that readers find our recent publications useful. Some of the key initiatives we pursued to make progress on this objective include:

- Launching a multi-year project to update the PCAOB's brand and transform our website to make it more relevant to a variety of stakeholders.
- Using less technical language on our website and within emails, social media posts, and other PCAOB documents.
- Leveraging graphic design to make our external communications, publications, and rulemaking more user-friendly.
- Revamping the way we communicate staff guidance, beginning with guidance to support the implementation of CAMs. The guidance was issued in four parts covering different aspects of the new requirements. We also used a new format and less technical language to enhance readability.
- Issuing guidance to raise awareness of the new requirements related to auditing estimates and the use of specialists. While these standards do not go into effect until December 2020, this document provides early insights as auditors prepare for implementation.
- Creating a new "Spotlight" document series, beginning with CAMs, to highlight timely and relevant observations from PCAOB staff for auditors and other key stakeholders.
- Holding webinars with the content from our small business and broker-dealer forums to allow more auditors to have access to the information.

Objective Two: Cultivate an effective and dynamic dialogue with stakeholders.

Based on feedback we received during the strategic planning process in 2018, the Board identified that the PCAOB needed a dedicated staff member to serve as the direct point of contact for and liaison to our key stakeholders. The PCAOB's first-ever stakeholder liaison joined the Office of External Affairs in 2019 and has worked collaboratively with the Board and all PCAOB divisions and offices to execute an engagement strategy that enhances our outreach to investors, audit committees, and preparers. The Board also continues to work to revisit the purpose and structure of our advisory groups as we look to receive advice from stakeholders in addition to our outreach efforts.

The feedback we received from these key stakeholders on our initial outreach efforts was overwhelmingly positive and underscores the need for continued enhancements to the ways in which we engage externally. Some of our key efforts in 2019 related to goal three, objective two of the strategic plan include:

- **Speaking to nearly 400 audit committee chairs through our inspections process.** In 2018, by contrast, we spoke to 88 audit committee chairs of U.S. issuers whose audits were selected for inspection.
- **Hosting roundtables with investors and audit committee members.** Our stakeholder liaison organized the first PCAOB-hosted roundtables in the fall of 2019, two with investors, and three with audit committee members. The roundtables took place in New York and Chicago in 2019 and focused on topics such as the state of audit quality, CAMs, PCAOB inspections, and investors' emerging expectations of the audit.
- **Creating targeted resources for key stakeholder groups.** As a part of our work to more effectively communicate with our stakeholders, the PCAOB began to create targeted resources for investors and audit committees. For example, the PCAOB issued an investor resource and an audit committee resource on CAMs. We also shared what we heard in our conversations with audit committees to provide transparency and to provide an opportunity for peer learning.
- **Interviewing and surveying investors, audit committees, and preparers as a part of our interim analysis of CAMs.** In 2019, ERA—in collaboration with our stakeholder liaison and other relevant PCAOB staff—began to interview and survey investors and audit committee members regarding the implementation of CAMs. We plan to continue our interviews and surveys to these stakeholders as well as preparers in 2020. We believe

PCAOB 2019 Engagement with Investors, Audit Committees, and Preparers*

840+ Investors

800+ investors attended events at which the PCAOB spoke or participated.

40+ investors participated in one-on-one conversations or small group meetings with the PCAOB.

1200+ Audit Committee Members

800+ audit committee members attended events where a Board Member or PCAOB staff spoke.

400+ audit committee chairs participated in one-on-one conversations or small group meetings with the PCAOB.

1200+ Preparers

1,065+ preparers attended events at which the PCAOB spoke or participated.

146+ preparers participated in one-on-one conversations or small group meetings with the PCAOB.

**Approximate numbers based on reported event attendance.*

it is extremely important and valuable to hear from stakeholders to understand the overall impact of the new CAM requirements on the audit profession, public companies, audit committees, and users of financial statements.

In addition to engagement with investors, audit committees, and preparers, the PCAOB remained engaged with audit regulators from around the world. For the 13th consecutive year, we hosted the International Institute on Audit Regulation, focused in 2019 on “Repositioning Audit Regulation for the Future.” PCAOB Board Members and senior staff also maintained our involvement in knowledge-sharing with the regulatory community through participation in the International Forum of Independent Audit Regulators.

In 2019, we continued to engage with academics through events and our Fellows program, which focuses on integrating academics into PCAOB projects to provide valuable external perspectives. We also engaged with registered firms that audit broker-dealers and public companies considered to be small businesses.

As a part of the advancement of goal three, objective two of the strategic plan, the Board initiated a transformation project to make a number of enhancements to our PCAOB Scholars Program. The PCAOB Scholars Program provides undergraduate and graduate accounting students with scholarships. In 2019, some of the enhancements included new requirements for program accreditation, GPA, and financial need. Responses to a voluntary survey provided by the 2019 recipients show that these enhancements have driven a positive broadening of the profile of students nominated to become PCAOB Scholars. The makeup of the 2019 PCAOB Scholars include:

- 41% identified as non-white, as opposed to 32% in 2017
- 68% female, as opposed to 57% in 2017

PCAOB-Hosted Events with Auditors, International Regulators, and Academics

1,309

Auditors of Small Businesses and Broker-Dealers

attended the forums, livestreams, or webinars on Auditing in the Small Business Environment

75

Representatives from 37 Non-U.S. Jurisdictions

attended the International Institute on Audit Regulation

299

Academics

attended the PCAOB and The Accounting Review Conference on Auditing and Capital Markets and the PCAOB/American Accounting Association Conference

- 73% past or current recipients of need-based financial aid from other public and private sources, as opposed to 37% in 2017
- 49% past or current recipients of a Pell Grant, as opposed to 29% in 2017
- 54% from households with annual income under $48,000, as opposed to 25% in 2017

Board Viewpoint

Robust engagement with investors, audit committees, preparers, and others is a critical part of the Board's efforts to improve audit quality and further promote informative, accurate, and independent audit reports. This outreach to our key stakeholders has provided us with important and meaningful feedback on our activities as well as with insights on how we can more effectively execute our mission.

Rebekah Goshorn Jurata
Board Member

Goal Four: Pursue operational excellence through efficient and effective use of our resources, information, and technology.

The Board recognized during its strategic planning process that there was an opportunity to mature many of our operations and processes. As a result, in 2019, we placed an emphasis on making a number of additions and enhancements to our operations, particularly in the area of risk management, data governance, and information technology and security. Below we highlight the key objectives under Goal Four of our strategic plan and the work we accomplished in 2019 to advance each objective.

Objective One: Enhance our risk management and operational processes and capabilities.

In 2019, the Board created a new Office of Enterprise Risk Management (OERM) to transform the PCAOB's approach to risk management and implement the Board's strategic objective of implementing an Enterprise Risk Management program. The OERM not only oversees the organization's risk management program, but also oversees our compliance, ethics, information security, and business continuity programs. The OERM is led by a Chief Risk Officer (CRO) and three direct reports who manage the office's primary responsibilities. In addition to hiring a CRO, the Board also hired the first-ever Chief Information Security Officer, Chief Compliance Officer, and related key staff positions. The Board also further integrated its ethics and compliance programs within the OERM in 2019.

In 2019, the OERM:

- Performed an organizational risk assessment.
- Piloted a new risk event reporting program.
- Conducted current state reviews of the PCAOB's ethics, information security, and business continuity programs and developed roadmaps to enhance these programs.
- Developed a 2020-2023 Enterprise Risk Management Program Strategy and 2020-2023 Business Continuity Program Strategy.

These endeavors provide the PCAOB with a more holistic view of the risks facing the organization, enable us to better manage our risks, and allow us to successfully implement our strategic plan amidst an evolving and challenging internal and external environment.

Additionally, our Office of Internal Oversight and Performance Assurance (IOPA) continues to provide independent assurance through internal examination of the programs and operations of the PCAOB to help ensure the internal efficiency, integrity, and effectiveness of those programs and operations, including OERM. The assurance provided by IOPA is intended to promote the confidence of the public, the SEC, and Congress in the integrity of PCAOB programs and operations. In 2019, IOPA, under new leadership, filled its open positions and honed its operating practices to align with Institute of Internal Auditors Professional Standards.

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Objective Two: Collect, manage, and use data to improve our internal processes and better inform our decision-making.

In 2019, the Board also hired our first Chief Data Officer to advance the organization's data management strategy and enhance our approach to data governance, security, and analytics. Creating a modern approach for information management is necessary to accelerate remediation and quickly establish foundational practices that are otherwise currently missing or antiquated at the PCAOB today. These include information governance, stewardship, classification, asset inventories, and a modern analytics infrastructure.

The PCAOB's new data strategy, which was developed in 2019, has two main objectives: (1) create an organization-level information governance function to manage our information assets and promote interoperability, and (2) modernize information infrastructure and deliver insights to the organization to enhance decision-making.

Objective Three: Increase and optimize our information technology investments to strengthen our capabilities.

To keep pace with the rapid technological advances, in 2019 we embarked on a multi-year transformation, under the leadership of the Office of Information Technology (OIT), to become a next-generation data and technology organization. The purpose of this transformation is to:

- Increase productivity, including faster, more consistent delivery.
- Strengthen collaboration across the PCAOB.
- Drive continuous improvement in how OIT delivers value to the organization.

These efforts are expected to improve the PCAOB's processes to be more aligned to industry standards and will help us become more efficient and effective as an organization. For example, we have already begun to embed IT business partners within PCAOB divisions and offices to help prioritize and plan technology needs.

Objective Four: Strengthen protection of our sensitive and proprietary data.

The PCAOB has made significant investments to improve information security. To date, we have put into place a number of new information security policies and controls, and we expect to continue the further maturation of our information security program. Some of our key efforts include:

- **Developing an information security strategy to modernize our approach to protecting our information assets.** Our strategy is supported by four major initiatives to (1) create and implement an information security governance model, (2) foster a security aware culture, (3) enable data-driven information security risk management, and (4) maintain and evolve security technologies, threat identification, and incident management capabilities.
- **Enhancing our information security awareness and training program.** We strengthened efforts to train and educate employees about IT protection and to build a security aware culture by initiating a security awareness program. This program includes sharing security tips with staff on a monthly basis

and on the organization's intranet, executing quarterly phishing exercises, and providing training and outreach to employees during Cybersecurity Awareness Month.

- **Drafting a new PCAOB information security policy framework to comprehensively outline how the PCAOB should protect its information assets.** This policy framework will incorporate essential security controls, including system and data access controls, and will emphasize the roles and responsibilities of all PCAOB staff in our security practices.
- **Implementing Security Incident Response policies and training.** We raised the maturity level of our incident response capability to ensure PCAOB staff know how to report, manage, and escalate any security incidents that we may face in the future.
- **Launching our first-ever Insider Threat Program to protect the organization's physical and cyber assets from both intentional and unintentional harm.** As a part of this program, we have integrated topics related to reducing insider threats into our information security awareness and training outreach.

> Board Viewpoint
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> **Our specific investment in technology means we can optimize our operations to technology-enable and mobilize our people and processes. This will empower the PCAOB workforce to be more effective and efficient in furthering our mission.**
>
> **James G. Kaiser**
> Board Member

Goal Five: Develop, empower, and reward our people to achieve our shared goals.

The PCAOB is fortunate to have a talented and mission-focused staff. We have initiated a number of internal-facing efforts over the past year to optimize our culture and make further progress towards this important strategic goal.

In 2019, our Office of Administration, which includes our Office of Human Resources, embarked on developing the organization's first Human Capital Strategic Plan (HCSP). Our objective is to take an integrated approach to addressing immediate and longer-term workforce management needs to strengthen the skills of our people, eliminate organizational barriers to collaboration, and cultivate a culture of inclusion and innovation.

Our approach reflects industry best practices in the areas of talent acquisition, talent management, and culture designed to position the PCAOB as an employer of choice in the marketplace. In the plan, we will address all three objectives of Goal Five outlined below, and the plan will serve as the foundation for all of our people-related initiatives. In addition to the HCSP, we highlight below the key objectives under Goal Five of our strategic plan and the work we accomplished in 2019 to advance each objective.

Objective One: Cultivate a high performing workforce through effective recruitment, retention, training, performance management, and leadership development.

Some of our key efforts in 2019 related to goal five, objective one of the strategic plan include:

- **Launching a new Learning Management System (LMS).** Our new LMS provides on-demand training and resources for our staff in a variety of important areas including leadership, communication, collaboration, and skills development.
- **Implementing significant upgrades to our performance management system.** We are designing an updated process that cascades strategic organizational goals to all levels and requires increased feedback loops throughout the performance cycle.
- **Revisiting and refining our pay and incentive structures.** To cultivate a culture of excellence and accountability, we worked in 2019 to refine our compensation philosophy and career progression framework. We have also designed compensation transparency training, which will be rolled out to all levels of the organization in 2020, to increase awareness of our compensation and career policies and practices and to help employees understand how these policies and practices impact them.
- **Created strategic performance metrics.** We developed and implemented a new suite of performance metrics that will assist us in measuring our progress towards completing our strategic goals.
- **Enhancing Human Resources (HR) support through a HR Business Partner (HRBP) model.** We implemented the new HRBP model in early 2019 to enhance HR engagement and support across the PCAOB's workforce.

Objective Two: Reward teamwork and eliminate organizational barriers to collaboration, transparency, and engagement.

We began to take several key steps towards advancing this objective in 2019, including:

- **Improving and streamlining internal communications.** In 2019, the Board created a new internal communications position to spearhead communications to PCAOB staff in a consistent manner. One of the goals of these streamlined and consistent internal communications is to increase transparency and communications surrounding decisions or initiatives. We believe a consistent internal communications strategy can have significant benefits in an organization by, among other things, helping to create a unified culture.
- **Launching an internal communications platform to all staff about change initiatives and the transformation of the PCAOB.** We launched "Strategic Insights" in 2019 to communicate more often and more directly about the important work our staff is undertaking regarding strategic initiatives and PCAOB transformation activities.

Objective Three: Create a culture of inclusion that leverages the diversity of experience and perspectives of our people.

Diversity and inclusion efforts are key to employee engagement, productivity and the sustainability of a viable workforce. The PCAOB is a diverse organization and we are committed to fostering a culture that prioritizes inclusiveness.

In 2019, we continued to make a significant investment in building broader diversity and inclusion awareness. Our HCSP and our internal communications strategies have put us on the path towards the further development of an inclusive culture.

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Chairman Viewpoint

The Board's vision for the PCAOB requires instilling our five core values into our day-to-day work and culture. We know that we cannot achieve our strategic goals and objectives without hardworking and dedicated staff, which is why we will continue to place an emphasis on significant people-related initiatives.

William D. Duhnke III
Chairman

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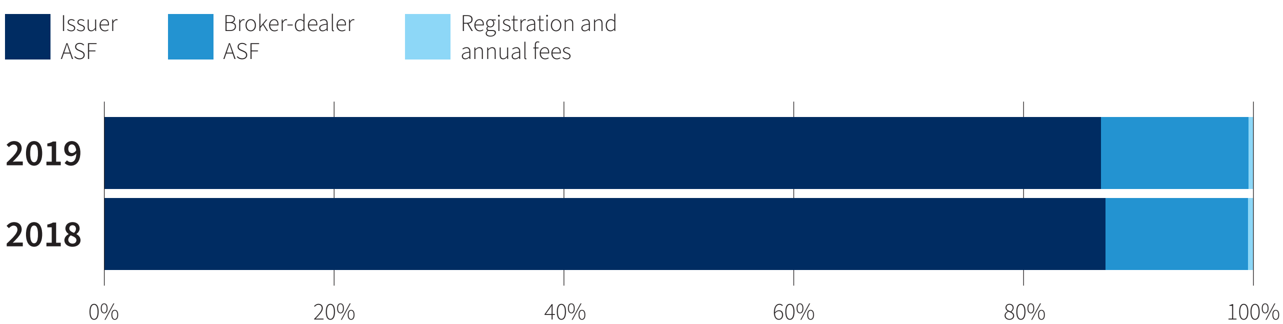
FINANCIAL REVIEW

This financial review, together with the 2019 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 Revenues

Percentage of operating revenues by type 2019 vs. 2018



Net operating revenues increased by $27.5 million, or 12%, from 2018 to 2019 due to the increase in the accounting support fee assessed on issuers and broker-dealers in 2019. The table below presents our net operating revenues by line item for the years ended December 31, 2019 and 2018:

($ in millions)	2019	2018	$ Change	% Change
Issuer accounting support fee	$228.5	$205.4	$23.1	11%
Broker-dealer accounting support fee	34.3	29.9	4.4	15
Registration and annual fees from PCAOB-registered public accounting firms	1.4	1.4	—	—
Total net operating revenue	**$264.2**	**$236.7**	**$27.5**	**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 increase in the accounting support fee is due to increases in our 2019 budget primarily related to higher information technology-related costs, consulting and professional fees, and planned headcount.

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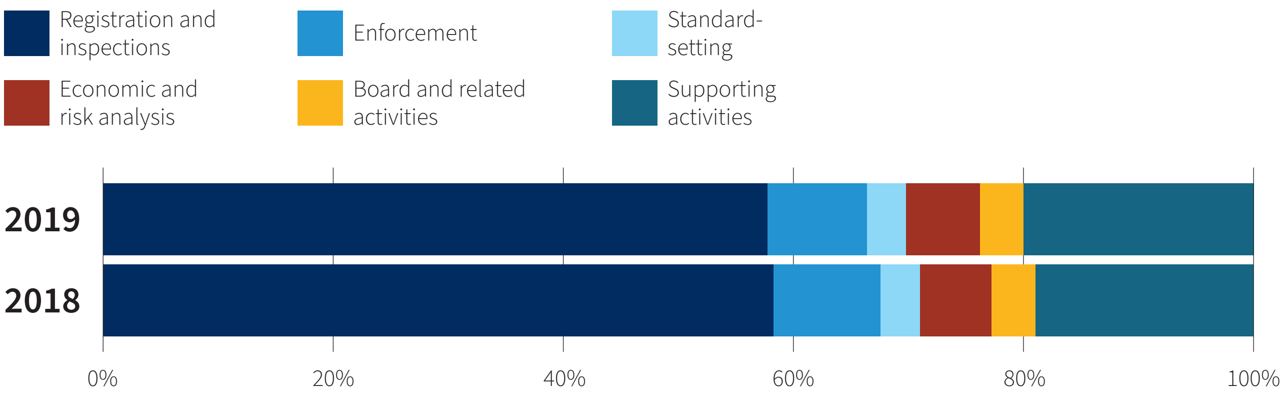
Operating Expenses

Percentage of operating expenses by functional classification 2019 vs. 2018

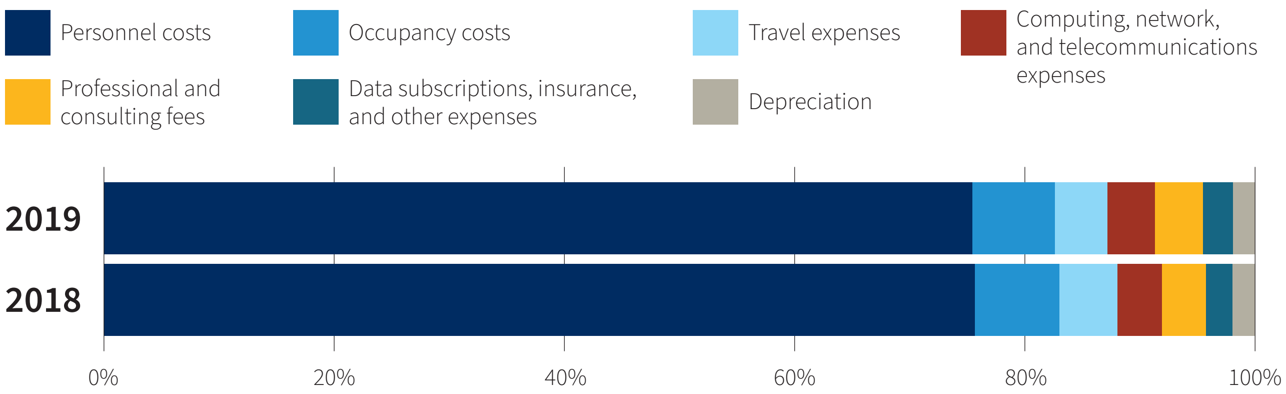


Our expenses are largely driven by employee-related costs. Overall, operating expenses increased by $6.1 million, or 2%, from 2018 to 2019.

The table below presents operating expenses (by program services and supporting activities) for the years ended December 31, 2019 and 2018:

($ in millions)	**2019**	**2018**	**$ Change**	**% Change**
PROGRAM SERVICES:				
Registration and inspections	$149.1	$147.3	$1.8	1%
Enforcement	21.8	22.7	(0.9)	(4)
Standard-setting	8.8	9.0	(0.2)	(2)
Economic and risk analysis	16.4	15.7	0.7	4
Board and related activities	10.3	9.7	0.6	6
SUPPORTING ACTIVITIES:				
Administrative and general	39.5	33.7	5.8	17
Information technology	11.8	13.5	(1.7)	(13)
Total operating expenses	**$257.7**	**$251.6**	**$6.1**	**2%**

Percentage of operating expenses by natural classification 2019 vs. 2018



The table below presents operating expenses (by natural classification) for the years ended December 31, 2019 and 2018:

($ in millions)	2019	2018	$ Change	% Change
Personnel costs	$194.7	$191.1	$3.6	2%
Occupancy costs	18.7	18.2	0.5	3
Travel expenses	11.6	12.1	(0.5)	(4)
Computing, network, and telecommunications expenses	10.6	9.8	0.8	8
Professional and consulting fees	10.8	9.5	1.3	14
Data subscriptions, insurance, and other expenses	6.5	6.4	0.1	2
Depreciation	4.8	4.5	0.3	7
Total operating expenses	**$257.7**	**$251.6**	**$6.1**	**2%**

Personnel costs are our largest expense. These costs increased by $3.6 million in 2019. The increase in costs was due to annual compensation increases, employee merit awards, recruiting costs, and an increase in headcount.

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

Professional and consulting fees increased by $1.3 million as a result of an increase in legal expenses, additional costs to support security enhancements, and costs associated with supporting the Board's transformation agenda.

Operating expenses by program service and support activity were affected by the items described above. The increase in Administrative and General expenses was due to higher personnel costs related to increased headcount in support of the Board's transformation agenda. Registration and Inspections expenses increased due to higher personnel costs related to the mix of staffing needs required to support the Board's transformation agenda. Increased spending on information technology for program specific initiatives in 2019 contributed to both increased program services costs, and to the $1.7 million decrease in Information Technology costs reported as supporting activities. This occurred because more costs were directly charged to program-specific initiatives in 2019 than in 2018. See Note 8 for additional detail of expenses by program services and supporting activities.

Other Revenue (Expenses)

The table below presents components of other revenue (expenses) for the years ended December 31, 2019 and 2018:

($ in millions)	**2019**	**2018**	**$ Change**	**% Change**
Interest income and other	$ 3.7	$2.7	$1.0	37%
Monetary penalties, net	2.1	1.1	1.0	91
Scholarship payments, net	(2.0)	(3.3)	1.3	(39)
Total other revenue	**$3.8**	**$0.5**	**$3.3**	**> 100%**

Interest income and other increased by $1.0 million primarily due to higher interest rates in 2019 on cash and cash equivalents and short-term investments, as compared to 2018.

Monetary penalties, net, increased by $1.0 million, primarily due to an increase in the number of disciplinary orders with monetary penalties in 2019 as compared to 2018. Revenues from monetary penalties depend on the number and amount of monetary penalties resulting from settled disciplinary orders and adjudicated final board actions imposing sanctions in disciplinary proceedings in a given year.

Scholarship payments, net, decreased by $1.3 million due to only 207 merit-based scholarships of $10,000 each being awarded in 2019 as compared to 332 awarded in 2018. The decrease in the number of scholarships awarded in 2019 was primarily attributable to our introduction of enhancements to the PCAOB Scholars Program, including additional accreditation requirements for many participating institutions.

Assets

Our total assets increased by $11.5 million, or 6%, from 2018 to 2019, primarily due to lower than expected spending in 2019 compared to 2018 which resulted in funding available to purchase additional investments and prepay certain software subscriptions and training costs.

The table below presents total assets by type as of December 31, 2019 and 2018:

($ in millions)	2019	2018	$ Change	% Change
Cash and cash equivalents	$16.2	$26.2	$(10.0)	(38)%
Restricted cash and cash equivalents	2.5	13.5	(11.0)	(81)
Short-term investments	136.7	117.0	19.7	17
Restricted short-term investments	11.0	—	11.0	100
Accounts and other receivables, net	1.0	1.4	(0.4)	(29)
Prepaid expenses and other assets	14.6	10.3	4.3	42
Furniture and equipment, leasehold improvements, and technology, net	18.4	20.5	(2.1)	(10)
Total assets	**$200.4**	**$188.9**	**$11.5**	**6%**

Cash and cash equivalents decreased by $10.0 million from 2018 to 2019 due to the decision to purchase additional investments in U.S. government securities in 2019.

Restricted cash and cash equivalents totaled $2.5 million and $13.5 million as of December 31, 2019 and 2018, respectively, and consisted primarily of funds designated for scholarships in accordance with Section 109(c)(2) of the Sarbanes-Oxley Act. In 2019, approximately $11.0 million of restricted cash and cash equivalents were converted to restricted short-term investments.

Short-term investments in U.S. government securities increased by $19.7 million from 2018 to 2019. This was largely attributable to an increase in the accounting support fee from 2018 and lower than expected spending throughout 2019.

Restricted short-term investments consisting of U.S. government securities totaled $11.0 million as of December 31, 2019, and consisted of funds designated for scholarships in accordance with Section 109(c)(2) of the Sarbanes-Oxley Act. This increase from the prior year was due to the Board's approval in 2019 of the investment of monetary penalty funds, including interest and earnings.

Prepaid expenses and other assets increased by $4.3 million from 2018 to 2019 primarily due to the timing of our prepayments for approximately $3.4 million of software subscriptions and training.

Furniture and equipment, leasehold improvements, and technology, net decreased by $2.1 million from 2018 to 2019, which primarily related to depreciation and amortization expenses of $4.8 million, partially offset by fixed asset additions in 2019.

Liabilities

Our total liabilities remained relatively consistent between 2019 and 2018. The table below presents total liabilities by type as of December 31, 2019 and 2018:

($ in millions)	2019	2018	$ Change	% Change
Accrued payroll and related benefits	$23.1	$21.4	$1.7	8%
Accounts payable and accrued expenses	1.8	1.4	0.4	29
Deferred rent	22.1	23.1	(1.0)	(4)
Total liabilities	**$47.0**	**$45.9**	**$1.1**	**2%**

Accrued payroll and related benefits increased by $1.7 million from 2018 to 2019 primarily due to an increase in the cost of accrued paid-time off.

Net Assets Without Donor Restrictions

Our net assets without donor restrictions increased by $10.3 million, or 7%, from 2018 to 2019. The table below presents net assets without donor restrictions as of December 31, 2019 and 2018:

($ in millions)	2019	2018	$ Change	% Change
Undesignated	$122.8	$112.4	$10.4	9%
Statutorily designated for scholarships in Section 109(c)(2) of the Sarbanes-Oxley Act	13.5	13.4	0.1	1
Statutorily designated for sequestration	17.0	17.2	(0.2)	(1)
Total net assets without donor restrictions	**$153.3**	**$143.0**	**$10.3**	**7%**

Our undesignated net assets without donor restrictions increased by $10.4 million from 2018 to 2019 mainly as a result of $6.5 million of operating income and $3.7 million of interest income and other as set forth above.

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.
- *Statutorily 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. The amounts subject to sequestration in 2019 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, 2019, we held $135.9 million of financial assets, comprised of cash and cash equivalents ($16.2 million) and short-term investments ($119.7 million), which were available within one year to pay general expenditures. The remaining amount of short-term investments ($17.0 million) is designated for sequestration, which will be used to offset the $16.8 million sequestered in 2020 (as discussed in Note 7 of the financial statements). At December 31, 2019, $6.3 million of restricted cash and cash equivalents and restricted short-term investments were available to pay for future scholarship awards, with an additional $7.2 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, 2019 and 2018, and the related statements of activities and cash flows for each of the years in the two-year period ended December 31, 2019, 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, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2019, 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, 2019, 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, during the year ended December 31, 2019, PCAOB adopted Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and Accounting Standards Update No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

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

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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. PCAOB'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 PCAOB; (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 PCAOB are being made only in accordance with authorizations of management and directors of the PCAOB; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the PCAOB'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.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the board of directors (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Description of the Matter

As disclosed in Note 2, the PCAOB adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09) during its fiscal year ended December 31, 2019. The core principle of this standard is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Historically, the PCAOB has recognized revenue related to support and annual fees in the year in which they are assessed, registration fees in the year the application is submitted, and monetary penalties in the year the sanctions are effective. Management evaluated its historical revenue recognition practices against the requirements of ASU 2014-09 as part of its adoption of the standard.

Auditing the PCAOB's adoption of ASU 2014-09 required complex auditor judgment due to the nature and characteristics of the PCAOB's revenues.

How We Addressed the Matter in Our Audit

As part of its consideration of ASU 2014-09, the PCAOB prepared an analysis of its revenue sources against the concepts included within the standard. This analysis included the following considerations:

- The PCAOB's revenues are derived from issuers, broker dealers, and public accounting firms. PCAOB does not have a contract with any of these parties.
- The amounts assessed to these parties by the PCAOB have not been negotiated and these parties are not the direct beneficiaries of the PCAOB's services.
- The assets transferred to the PCAOB by issuers, broker dealers, and public accounting firms are not transferred on a voluntary basis.

Based upon its analysis, the PCAOB concluded the majority of its revenue sources do not meet the criteria specified to be specifically accounted for under ASU 2014-09. As a practical alternative, PCAOB looked via analogy to the guidance of ASC 958 for when the revenue amounts are determinable, they have a right to bill and collect such amounts, and the amounts are realizable. Based on this analysis, PCAOB concluded that its revenue should be recognized at the point of billing and, as a result, recognition policies should remain consistent with historical practice. In our audit of this conclusion, we performed the following:

- We analyzed applicable accounting guidance in ASC 606 and ASC 958 based upon the specific facts and circumstances of the PCAOB's revenue types.
- We analyzed the realizability considerations for each of the PCAOB's revenue types.
- We analyzed applicable issuer, broker dealer, and public accounting firm appeal rights for each of the PCAOB's revenue types.
- We tested controls over the PCAOB's revenue recognition process.

In addition to the engagement team personnel, we consulted with our firm's revenue recognition subject matter expert on the adoption of ASU 2014-09 based on the PCAOB's specific fact pattern. In addition, we evaluated the PCAOB's disclosure included in Note 2 in relation to this matter.

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

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
March 24, 2020

FINANCIAL STATEMENTS

Statements of Financial Position

December 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$16,242,095	$26,217,357
Restricted cash and cash equivalents	2,527,867	13,479,894
Short-term investments	136,662,855	116,975,201
Restricted short-term investments	10,990,668	—
Accounts and other receivables, net	954,582	1,431,004
Prepaid expenses and other assets	14,602,856	10,270,532
Furniture and equipment, leasehold improvements, and technology, net	18,373,167	20,540,691
TOTAL ASSETS	**$200,354,090**	**$188,914,679**
Liabilities and Net Assets without donor restrictions		
Liabilities		
Accrued payroll and related benefits	$23,132,976	$21,426,886
Accounts payable and accrued expenses	1,774,571	1,354,952
Deferred rent	22,140,129	23,134,870
Total liabilities	47,047,676	45,916,708
Net Assets without donor restrictions		
Undesignated	122,820,048	112,405,670
Statutorily designated for scholarships in Section 109(c)(2) of the Sarbanes-Oxley Act	13,514,425	13,438,337
Statutorily designated for sequestration	16,971,941	17,153,964
Total net assets without donor restrictions	153,306,414	142,997,971
TOTAL LIABILITIES AND NET ASSETS WITHOUT DONOR RESTRICTIONS	**$200,354,090**	**$188,914,679**

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

Statements of Activities

For the years ended December 31, 2019 and 2018

	2019	2018
Changes in net assets without donor restrictions		
Net operating revenue		
Issuer accounting support fee	$228,521,500	$205,350,800
Broker-dealer accounting support fee	34,328,100	29,885,800
Registration and annual fees from PCAOB-registered public accounting firms	1,400,500	1,437,500
Total net operating revenue	264,250,100	236,674,100
Operating expenses		
Program services		
Registration and inspections	149,133,976	147,274,987
Enforcement	21,810,244	22,748,731
Standard-setting	8,803,602	8,977,809
Economic and risk analysis	16,439,980	15,682,305
Board and related activities	10,284,318	9,703,923
Supporting activities		
Administration and general	39,523,908	33,723,484
Information technology	11,763,740	13,449,118
Total operating expenses	257,759,768	251,560,357
Operating Income (Loss)	6,490,332	(14,886,257)
Other Revenue (Expenses)		
Interest income and other	3,742,023	2,640,368
Monetary penalties, net	2,146,088	1,104,469
Scholarship payments, net	(2,070,000)	(3,290,876)
Total other revenue	3,818,111	453,961
Increase (decrease) in net assets without donor restrictions	10,308,443	(14,432,296)
Net Assets without donor restrictions —Beginning of Year	142,997,971	157,430,267
Net Assets without donor restrictions —End of Year	$153,306,414	$142,997,971

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

Statements of Cash Flows

For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Cash received from issuers	$228,448,621	$204,976,793
Cash received from broker-dealers	34,664,571	29,705,152
Cash received from registered public accounting firms	1,372,010	1,427,499
Interest income and other	1,763,735	2,549,708
Cash received from monetary penalties, net	2,146,088	1,854,449
Cash paid to fund scholarships (net of refunds)	(2,070,000)	(3,290,876)
Cash paid to suppliers and employees	(256,232,038)	(247,239,025)
Net cash provided by (used in) operating activities	10,092,987	(10,016,300)
Cash Flows from Investing Activities		
Purchases of furniture and equipment, leasehold improvements, and technology	(2,176,993)	(2,354,973)
Purchases of short-term investments	(239,298,200)	(185,502,774)
Purchases of restricted short-term investments	(10,911,608)	—
Proceeds from maturity of short-term investments	221,366,525	175,377,242
Net cash used in investing activities	(31,020,276)	(12,480,505)
Decrease in Cash and Cash Equivalents, and Restricted Cash and Cash Equivalents	(20,927,289)	(22,496,805)
Cash and Cash Equivalents, and Restricted Cash and Cash Equivalents — Beginning of Year	39,697,251	62,194,056
Cash and Cash Equivalents, and Restricted Cash and Cash Equivalents — End of Year	$18,769,962	$39,697,251
Supplemental disclosures:		
Fixed asset purchases acquired but not paid for as of year-end	$503,365	$30,155
Fixed asset purchases acquired through the use of leasehold incentives	—	3,690,353
Cash paid during the year for:		
Unrelated business income taxes	$205,274	$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 or the Board) 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 U.S. Securities and Exchange Commission (SEC)-registered broker-dealers in order to protect investors and further the public interest in the preparation of informative, accurate and independent audit reports.

We are overseen by the SEC, which has 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 broker-dealers that is based on their relative average quarterly tentative net capital. The annual accounting support fee is also approved by the SEC annually.

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 activities and information technology activities.

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 (ASC) Topic 958, *Not-for-Profit Entities* (ASC 958).

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), which affects virtually all aspects of an entity's revenue recognition. ASU 2014-09 states 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. We determined that the majority of our revenues are not in the scope of this guidance, because they do not arise from contracts with customers and are not received in exchange for goods or services. We adopted the guidance as of January 1, 2019, on a modified retrospective basis, for collection fees received from FASB for serving as its collection agent for the FASB accounting support fee. The adoption did not have a significant impact on our financial statements.

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*. While our revenues are not received from voluntary contributions, we have concluded that analogy to the guidance in ASC 958-605, *Not-for-Profit Entities*, *Revenue Recognition*, provides a reasonable accounting model for the majority of our revenues, including the (1) annual accounting support fees from issuers and broker-dealers and (2) registration and annual fees from public accounting firms registered with us. While the Sarbanes-Oxley Act provides the Board with the authority to assess fees, the underlying intent of the fees is to fund our mission to oversee the audits of public companies and SEC-registered broker-dealers to protect the interests of investors and further the public interest in informative, accurate and independent audit reports.

Revenues from monetary penalties are disciplinary in nature, and generally would not be considered exchange transactions, as respondents would not receive any commensurate value. As such, we also concluded that analogy to the guidance in ASC 958-605 would provide a reasonable accounting model for our revenues from monetary penalties. We adopted ASU 2018-08 by analogy, effective January 1, 2019, on a modified prospective basis. It did not have a significant impact on the amounts or timing of revenue recognized in our financial statements.

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. government securities 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 having Level 2 inputs. 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.

Restricted Short-term Investments—The term restricted short-term investments, as used in the accompanying financial statements, consist primarily of investments in U.S. government securities that are expected to be used to fund our Scholarship Program, established pursuant to Section 109(c)(2) of the Sarbanes-Oxley Act. Our investments are recorded at fair value and consist of investments in U.S. governmental securities 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 having Level 2 inputs. 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 of Credit 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 through daily overnight investment sweep agreements that invests excess cash in money market funds 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.

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.

Revenue Recognition—The Sarbanes-Oxley Act provides for our funding through the assessment of an annual accounting support fee. The annual accounting support fee is reviewed and approved annually by the SEC. We assess and collect registration and annual fees and may impose monetary penalties as prescribed by the Sarbanes-Oxley Act.

Annual Accounting Support Fees—Annual accounting support fees are assessed on issuers, as defined in the Sarbanes-Oxley Act, and on broker-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 adjustments. 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.

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Monetary Penalties, Net—Our sanctions may include monetary penalties pursuant to Section 105 of the Sarbanes-Oxley Act. Monetary penalties are recognized as other revenue generally in the year disciplinary orders are settled and adjudicated final board actions imposing sanctions in disciplinary proceedings are effective.

Monetary Penalties, Net and Scholarship Payments, Net—Amounts collected from the assessment of monetary penalties 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 and restricted short-term investments in the Statements of Financial Position. In the Statements of Financial Position, the net change in penalties assessed and paid out are reported as an increase or decrease in net assets without donor restrictions statutorily designated for scholarships in Section 109(c)(2) of the Sarbanes-Oxley Act.

Cash Held for Others under Agency Agreement—We serve as the collection agent for invoicing and collecting the 2019 and 2018 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 $29.3 million and remitted $29.1 million in 2019, and in 2018, collected $29.0 million and remitted $28.8 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 (IRC) of 1986, as amended. Effective January 1, 2018, IRC Section 512(a)(7) required 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 Statements of Activities for the year ended December 31, 2018, and made payments related to unrelated business taxable income totaling $205,274 during 2019. On December 20, 2019, the Taxpayer Certainty and Disaster Tax Relief Act of 2019 retroactively repealed IRC Section 512(a)(7). Pursuant to the new legislation, Section 512(a)(7) was repealed retroactive to the date of its enactment. We filed a refund claim in 2020 for the taxes paid in 2019 and 2018 and recorded a receivable of $376,274 in our 2019 financial statements.

Reclassifications—Certain reclassifications were made to the prior year's financial statements to conform to the current year presentation.

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.

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

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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:

	2019	2018
Cash and cash equivalents	$16,242,095	$26,217,357
Restricted cash and cash equivalents	2,527,867	13,479,894
Total cash and cash equivalents, and restricted cash and cash equivalents shown in the Statements of Cash Flows	$18,769,962	$39,697,251

Accounting Pronouncements Issued But Not Yet Adopted—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 2021 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 ASC Topic 350-40, *Internal-Use Software*, 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 receivables and other receivables consist of the following as of December 31, 2019 and 2018:

	2019	2018
Accounts receivable—issuer and broker-dealer accounting support fees and annual fees	$1,399,185	$1,491,037
Accounts receivable—other	563,489	278,552
Other receivables—monetary penalties	570,593	570,593
	2,533,267	2,340,182
Less: allowance for doubtful accounts	(1,578,685)	(909,178)
Accounts and other receivables, net	$954,582	$1,431,004

Note 4—Furniture and Equipment, Leasehold Improvements, and Technology

Furniture and equipment, leasehold improvements, and technology consist of the following as of December 31, 2019 and 2018:

	2019	2018
Technology		
Hardware	$10,914,506	$9,507,232
Purchased and developed software	12,794,422	13,180,039
Leasehold improvements	22,199,892	22,106,634
Furniture and equipment	8,144,916	8,108,163
Technology development and construction in process	892,034	634,582
	54,945,770	53,536,650
Less: accumulated depreciation and amortization	(36,572,603)	(32,995,959)
Furniture and equipment, leasehold improvements, and technology, net	$18,373,167	$20,540,691

Depreciation and amortization expense was approximately $4.8 million and $4.5 million for the years ended December 31, 2019, and 2018, respectively.

Note 5—Lease Commitments

As of December 31, 2019, 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 for the year ended December 31, 2018, which were primarily comprised of leasehold improvements.

Rent is expensed using the straight-line method over the respective lease terms. Rent expense for each of the years ended December 31, 2019 and 2018 was $16.4 million. Minimum rental commitments for our office leases exceeding one year as of December 31, 2019 are as follows:

Year ending December 31,	
2020	$16,886,096
2021	17,230,441
2022	17,583,024
2023	17,958,102
2024	17,130,008
Thereafter	57,517,839
Total minimum lease payments	$144,305,510

As of December 31, 2019, we had short-term leases for office space in Newton, Massachusetts; Houston, Texas; Tampa, Florida; Fort Lauderdale, Florida; and Los Angeles, California, under leases that expire in 2020. Rental commitments for temporary office spaces having remaining lease terms of one year or less in 2020 were $878,598.

Note 6—Retirement Benefit Plan

We have a defined contribution retirement plan that covers all eligible employees. For the years ended December 31, 2019 and 2018, we matched 100% of employee contributions up to 7% of eligible compensation. Our contributions vest immediately. Our contributions to employees' accounts were $9.3 million and $9.1 million, for the years ended December 31, 2019 and 2018, respectively.

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 207 and 332 merit-based scholarships of $10,000 each to eligible students for the 2019-2020 and 2018-2019 academic years, respectively. Together restricted cash and cash equivalents and restricted short-term investments included approximately $13.5 million and $13.4 million as of December 31, 2019 and 2018, respectively, to be used for merit scholarships.

The activity of the statutorily designated funds for the years ended December 31, 2019 and 2018, is as follows:

Statutorily designated funds, as of December 31, 2017	$15,624,744
Monetary penalties 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
Monetary penalties assessed in 2019, net	2,146,088
Less scholarship payments for the 2019–2020 academic year	(2,070,000)
Statutorily designated funds, as of December 31, 2019	$13,514,425

Of the statutorily designated funds as of December 31, 2019 and 2018, there were approximately $7.2 million and $9.1 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 February 12, 2018, OMB issued a report, “OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2019,” specifying that 6.2% of our approved 2019 budget funds were subject to sequestration, which calculates to $17.0 million. These sequestered funds remained unspent as of December 31, 2019, and are included in short-term investments in the accompanying Statements of Financial Position. In a separate report issued on March 18, 2019, “OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2020,” OMB specified that our sequestration percentage in 2020 was 5.9% of our approved 2020 budget, which calculates to $16.8 million. In 2020, we will use the $17.0 million sequestered in 2019 to offset the $16.8 million sequestered in 2020. The excess reduces our approved 2020 accounting support fee by $0.2 million. The scholarship funds were not subject to sequestration in 2019 or 2018.

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:

- Division of 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 SEC, and professional standards, in connection with the performance of audits, issuance of audit reports, and related matters involving issuers and broker-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.

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For the year ended December 31, 2019

	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	$116,478,930	$17,282,912	$7,198,025	$11,916,744	$8,213,649	$161,090,260	$26,775,140	$6,852,942	$33,628,082	$194,718,342
Occupancy costs	9,941,711	2,009,776	679,002	1,346,925	1,004,084	14,981,498	2,891,117	841,233	3,732,350	18,713,848
Travel expenses	10,508,517	179,835	94,982	92,196	337,373	11,212,903	308,339	112,923	421,262	11,634,165
Computing, network, and telecommunications expenses	5,539,211	752,719	192,849	836,499	268,695	7,589,973	1,715,840	1,251,853	2,967,693	10,557,666
Professional and consulting fees	3,475,808	633,003	52,186	231,683	53,526	4,446,206	4,272,639	2,075,401	6,348,040	10,794,246
Data subscriptions, insurance, and other expenses	1,062,785	563,073	180,260	1,698,555	204,034	3,708,707	2,635,209	179,859	2,815,068	6,523,775
Depreciation	2,127,014	388,926	406,298	317,378	202,957	3,442,573	925,624	449,529	1,375,153	4,817,726
Total operating expenses	**$149,133,976**	**$21,810,244**	**$8,803,602**	**$16,439,980**	**$10,284,318**	**$206,472,120**	**$39,523,908**	**$11,763,740**	**$51,287,648**	**$257,759,768**

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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**

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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, 2019, we held $135.9 million of financial assets, comprised of cash and cash equivalents ($16.2 million) and short-term investments ($119.7 million), which were available within one year to pay general expenditures. The remaining amount of short-term investments ($17.0 million) is designated for sequestration which will be used to offset the $16.8 million sequestered in 2020 (as discussed in Note 7 of the financial statements). At December 31, 2019, $6.3 million of restricted cash and cash equivalents and restricted short-term investments were available to pay for future scholarship awards, with an additional $7.2 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 24, 2020, which represents the date the audited financial statements were available to be issued. The coronavirus pandemic (COVID-19) started to have an effect on our operations in February 2020. For example, we have suspended international travel, including for non-U.S. firm inspections, and made the decision to provide PCAOB-registered audit firms an up to 45-day relief period from inspections, with the exception of providing us access to audit documentation for certain engagements. We remain operational and are committed to conducting our regulatory and operational activities to the maximum extent possible. We cannot reasonably estimate the full effect of the outbreak on our financial statements at this time.

2019 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 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, 2019. 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, 2019.

March 24, 2020

William D. Duhnke III
Chairman

Sue Lee
Chief Administrative Officer

Holly Wheaton Greaves
Chief Financial Officer