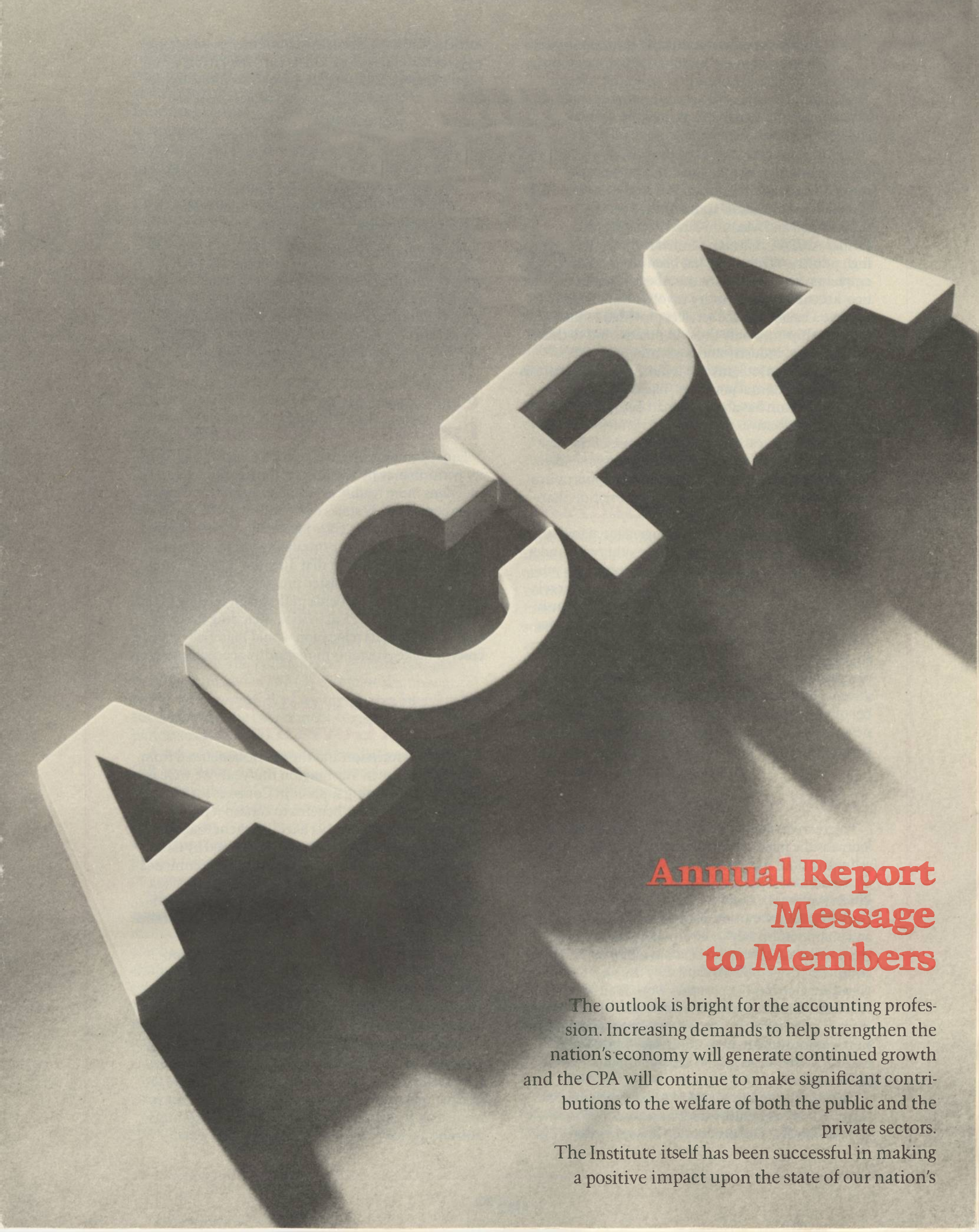
1981

AICPA annual report 1980-81; Message to members

American Institute of Certified Public Accountants

American Institute of Certified Public Accountants • Annual Report • 1980-81



Annual Report Message to Members

The outlook is bright for the accounting profession. Increasing demands to help strengthen the nation's economy will generate continued growth and the CPA will continue to make significant contributions to the welfare of both the public and the private sectors.

The Institute itself has been successful in making a positive impact upon the state of our nation's health. That success derives directly from the continuing dedication of many members offering volunteer services through our committee structure. We are most grateful to those who actively worked on Institute programs, and to the many others whose firms and organizations made their time available.

The current year witnessed progress on a number of fronts, particularly in the Institute's efforts to be more responsive to the needs of smaller firms. Implementation of the recommendations of the Special Committee on Small and Medium-Sized Firms, headed by former AICPA Chairman Samuel Derieux, was given high priority. While there has been considerable emphasis on service to our members in public practice, a second major priority involves our efforts to achieve a balance in the services provided to the entire membership—not only those in practice but to those in education, industry and government as well.

Our ability to look inward is due in large measure to diminished external pressures. The threat of government regulation has abated, in part because of the self-regulatory initiatives taken by your profession over the past several years and in part because of the new emphasis in Washington on deregulation generally. We believe that the current environment puts us in a better position to be of assistance to the nation than was the case several years ago.

While there are no current Congressional investigations underway nor is the profession otherwise under attack, we firmly believe that our self-regulatory programs and our continuing efforts to improve our relationships with Congress must be pursued vigorously.

The Division for CPA Firms, peer review and effective ethics enforcement represent a positive demonstration of our resolve to improve the standard of practice. Instances of substandard performance are relatively few when viewed in relation to the total number of professional engagements performed each year; nevertheless, we must constantly strive for improved performance.

Self-Regulation

Progress was made this year on the matter that still looms as the major challenge facing the profession: self-regulation. Arrangements are being made for well over a thousand peer reviews in 1981 and 1982, a condition for membership in the Division for CPA Firms. Periodic peer reviews are a key factor in self-regulation, and an important step in improving performance. Despite the apprehension of some members and the administrative problems caused by the number of reviews, we are able to report that work is on schedule. Our willingness to undertake a comprehensive program of peer review proves to outsiders that the profession is committed to high standards of practice and reinforces our status as a profession responsive to the public interest.

To meet the requirements of a changing environment, our self-regulatory efforts are under constant review. The SEC Practice Section has appointed a task force to study membership requirements, including peer review and its cost. On its part, the Private Companies Practice Section Executive Committee has appointed a task force to monitor the peer review program.

A significant step taken by PCPS ensures that attitudes of its members on professional matters are made known. Its Technical Issues Committee, established to monitor and review developments in professional standards and to comment to appropriate bodies, has accelerated its work.

In SECPS, operating procedures were developed to provide SEC staff with limited access to the peer review process while safeguarding the confidentiality of client information. The section's Special Investigations Committee, established last year, is studying allegations of possible audit failures well before the conclusion of any litigation that may be involved.

Continuing Professional Education

Equally important in our effort to ensure high-quality performance by members is the need to make CPE programs more readily available to larger numbers of members. With 39 states now requiring CPE and travel and accommodation costs increasing, we are placing greater emphasis on decentralizing our training programs. A major effort in that direction has been increased use of video-assisted programs. At the request of Council, a study is being undertaken relating to the economics of our CPE activities, including the question of whether its relocation would materially reduce costs or make programs more readily accessible to users.

Relations with the Federal Government

Both the profession and the public benefitted from AICPA activities in Washington this year. We were instrumental in gaining support in Congress for a bill restoring social security benefits to certain retired CPAs and another that left intact a requirement that audits of federally assisted programs be performed by CPAs. Congress adopted a number of Institute recommendations in the new tax law, including indexation of tax rates, an increase in the limitations on covered compensation for self-employed retirement plans, and simplified LIFO inventory for small business.

These successes are attributable to on-going programs such as *Key Person* and the Congressional Breakfasts (nine were held involving twelve state societies this year) and to continued dialogue between Institute committees and federal regulatory bodies.

We are encouraged by the Securities and Exchange Commission's proposal to rescind Accounting Series Release No. 250 which requires public companies to disclose information related to non-audit services performed by their independent auditors. The commission also agreed to withdraw ASR No. 264, which discusses factors relevant to an evaluation of the impact on auditor independence of the performance of non-audit services. In taking these steps, the commission expressed its belief that the profession's self-regulatory mechanism is adequate to monitor the services performed by accountants. These actions provide further evidence of the welcome trend toward easing unnecessary government regulation.

Over the past year, the profession also was successful in strengthening its relationships with the Internal Revenue Service. A serious conflict arose between tax preparers and the IRS when practitioners across the country protested against uneven application of IRS tax preparer penalties. The problem was substantially alleviated when suggestions of the Institute's Tax Division for asserting the penalty were adopted by the IRS.

Another issue, equally controversial, involved an increased demand from IRS examiners for accountants' workpapers. Ultimately, the IRS substantially limited the situations in which access to such workpapers may be requested when it effectively accepted the Institute's recommended modifications in IRS internal instructions.

Federally Assisted Programs

When charges of substandard audits of federally assisted programs were made by the Office of Management and Budget and the General Accounting Office, the Institute responded with an extensive effort. Our objective has been to (1) identify any instances where inferior work was in fact performed, (2) introduce new standards and guidelines for practitioners performing grant audits and (3) eliminate stumbling blocks such as misunderstandings arising out of differences between the government's expectations and the profession's standards.

A colloquium was convened late last year at Cherry Hill, New Jersey, under the joint sponsorship of the AICPA and the GAO to discuss the procurement and performance of audits of government organizations and programs. A number of the resulting recommendations are being implemented. One example is that further information will be published on the entire procurement process.

Efforts also were undertaken to implement a requirement of an organization-wide audit of government entities receiving federal funds. Particular emphasis was placed on safeguarding small firms against displacement because of the "single-audit concept." With more than 40,000 audits of federally assisted projects at stake, the Institute recognizes the necessity of supporting the interests of all segments of its membership.

Governmental Accounting Standards Board

As demands upon state and local governments to be more accountable to the public increase, the profession has been actively involved in exploring various alternatives for setting accounting standards for such government units. Together with other interested organizations, the AICPA helped establish an ad hoc working committee known as the Governmental Accounting Standards Board Organization Committee. Under the leadership of Robert K. Mautz, the committee considered whether a new structure should be established to set accounting and reporting requirements for state and local governments. Subsequent to a public hearing in May, tentative agreement was reached among the participants to establish a structure for setting such standards under the oversight of the Financial Accounting Foundation.

We urge your support of this effort as the best way today of achieving, in the private sector, the establishment of an independent body that offers reasonable prospects for improved financial reporting by state and local governments.

International

As world accounting enters a new era, there is growing recognition of the need to coordinate accounting and reporting standards around the globe. Internationally, an agreement was reached that is expected to have lasting impact on the setting of worldwide standards. The International Federation of Accountants and the International Accounting Standards Committee moved toward formalizing their relationship by adopting a statement of mutual commitment. The agreement, by preserving the independence of each body and providing the framework for closer working relationships, should stimulate progress in international standards-setting. The AICPA is a founding member of both organizations.

Helping Small and Medium-Sized Firms

Our profession has grown from modest beginnings. Some firms have prospered in their local environment. Others have become major firms in our nation and throughout the world. To remain healthy, our profession must continue to display diversity and growth. In the current competitive business climate, it is particularly important that all segments of the profession prosper and that the entire profession remain united in working toward common goals.

Toward this end, the Derieux Committee was formed several years ago to study the future viability and prospects for small and medium-sized firms and to develop programs to ensure their ability to retain clients of significant size and standing in the financial community. The committee concluded that wellmanaged firms of all sizes were thriving and that prospects have never been brighter. To ensure that we continue to be a strong, healthy profession, the committee made 28 recommendations for improving the Institute's services to members. Each recommendation is being dealt with on a high-priority basis.

The issue attracting the widest attention is a reconsideration of the removal of the ban against direct, uninvited solicitation. In response to a resolution adopted at the October 1980 annual meeting, a special committee was formed to take a fresh look at the question. Independent legal counsel was engaged, state societies and state boards were contacted and a survey of members' attitudes was undertaken. The committee's report was released in September. We urge all members to study it and let us have the benefit of your views.

As a profession, we have been willing to examine not only our attitudes towards independence and work standards but also the specific skills we offer to clients and the public. One aspect of this study is the issue of whether members should refer to themselves as experts or specialists. During the year, the Professional Ethics Division reversed the prior ban against such practices; its proposal to establish certain educational and experience prerequisites for self-designation of specialties did not win the support of the membership. As a result, we continue to be guided by the general requirement that members not seek to obtain clients by advertisements or other forms of solicitation that is false, misleading or deceptive. Although a program for accreditation of specialty areas was rejected some years ago, that question should be reconsidered in the current environment.

The sentiment in the nation is to relieve business of excessive regulation. In our profession this issue has been identified as "standards overload." Raised by the Derieux Committee, the issue is before the Special Committee on Accounting Standards Overload, which is considering how to provide relief from standards that may not be cost effective, particularly for small, closely held businesses. This study is being closely monitored by the PCPS Technical Issues Committee and the Special Committee on Small Business, both of which were formed last year to provide added assurance that the Institute is being fully responsive to the needs of smaller organizations and firms.

To help achieve a broader representation from the membership, a third committee, appointed during the final stages of the Derieux study, is reviewing the entire process by which AICPA committee members are selected. We have already broadcast an appeal in *The CPA Letter* for more Institute committee volunteers. And our out-of-pocket expense reimbursement policy has been revised to eliminate "financial need" as a criterion, thereby encouraging greater representation on AICPA committees by small firms.

Additional Actions

A number of additional actions were taken during the year as a result of other recommendations in the Derieux Report:

- A high level staff person is being recruited to better serve the interests of smaller firms and to coordinate many of the diverse activities in the Institute that primarily affect such firms.
- To encourage participation in the standard-setting process, exposure drafts of Institute pronouncements include concise summaries of the proposals' effects and self-mailer response forms.
- Videotapes are being used to report current developments in professional standards on a more timely basis, and CPE courses are being developed on efficient engagement planning and performance and on advertising.
- Toll-free numbers have been installed for the technical information service and the library to improve members' access to these services.
- Guidelines are being developed for engagement proposals so that prospective clients have a sound basis for making comparisons among firms.
- The Professional Ethics Division has issued an exposure draft of an interpretation prohibiting the quoting of fee estimates when it is clear that significantly higher fees will be required in the near future.
- Letters to the editor are being published in the *Journal of Accountancy* to encourage members to present their views on current professional issues.
- A broad-based public relations program is being implemented to bring about a more objective process of selection of CPA firms. An information booklet is well along the way, stressing that the selection should be made based, not on size, but on ability to provide service.
- Both sections of the Division for CPA Firms modified their peer review procedures to emphasize the relationship between quality control policies and procedures and firm size. This was done to overcome the widespread belief that smaller firms would be burdened with policies adopted by larger firms for their particular needs.
- The Board of Directors has adopted a resolution deploring the use of loan agreement clauses that would limit the rendering of accounting and auditing services to "Big 8" or "nationally recognized firms." The Board recommends that such agreements provide that the accounting firm be mutually acceptable to all the parties. Our position is being widely disseminated.
- The Board also clarified its long-standing position, originally issued in 1967, relating to the role of audit committees in the process of auditor selection.

Financial Results

Our financial statements for the fiscal year ended July 31, 1981, reflect an excess of expenses over revenues in the amount of $179,267. Our long-range plans had anticipated this situation, although the deficit occurred one year earlier than predicted. That is a result of the continued inroads of inflation, less than anticipated sales of publications and unbudgeted member services that were introduced during the year.

More significantly, the budget for the current year, fiscal 1982, shows a deficit of approximately $1,600,000.

To continue to provide member services, your Board of Directors will be asking, for the first time since 1975-76, for an increase in members' dues for fiscal 1982-83.

Conclusion

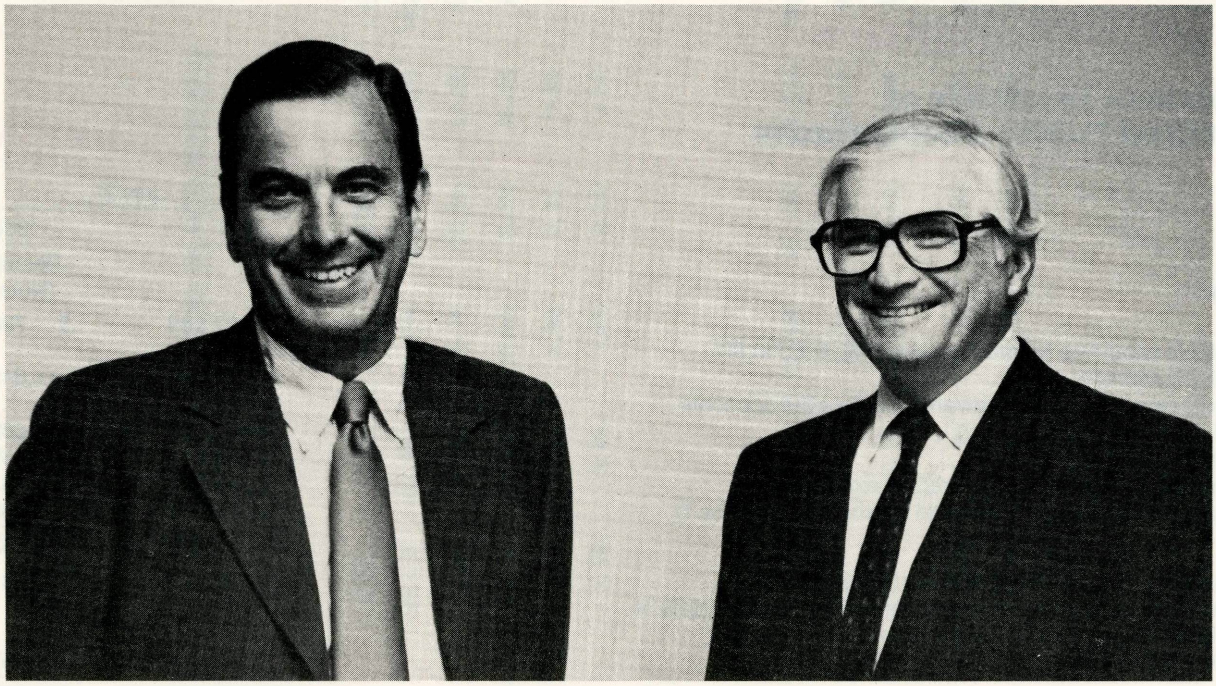
The past year has been one of significant progress. We believe that the profession should be proud of its achievements and of its willingness to engage in self-improvement.

The Institute will continue to offer its services to the government, to the private sector, and to the public, for we cannot ignore our important roles in the economy and in society. And we are committed to help all segments of the profession share in the nation's prosperity.

The Institute represents a diverse membership of practitioners, large and small, as well as CPAs not in public practice. We are committed to bring those interests together in working toward common goals. The record, we believe, demonstrates the strength of that commitment. Our future is indeed bright.

William S. Kanaga

Philip B. Chenok



William S. Kanaga, Chairman of the Board, and Philip B. Chenok, President.

Report of Independent Certified Public Accountants

To the Members of the American Institute of Certified Public Accountants

We have examined the balance sheet of the American Institute of Certified Public Accountants as of July 31, 1981 and 1980 and the related statements of revenues and expenses, changes in fund balances, and changes in financial position for the years then ended. We have also examined the balance sheets of the American Institute of Certified Public Accountants Foundation, the American Institute Benevolent Fund, Inc., and the Accounting Research Association, Inc. as of July 31, 1981 and 1980 and the related statements of changes in fund balances for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements identified above present fairly the financial position of each of the aforementioned organizations at July 31, 1981 and 1980 and the results of their operations and the changes in their fund balances and, for the American Institute of Certified Public Accountants, the changes in its financial position for the years then ended, all in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for compensated absences as described in Note 1 to the financial statements.

Main Hurdman

CERTIFIED PUBLIC ACCOUNTANTS

NEW YORK, NEW YORK
SEPTEMBER 11, 1981

Financial Statements

American Institute of Certified Public Accountants

Balance Sheet

	July 31, 1981	July 31, 1980 Restated (Note 1)
Assets		
Cash	$ 407,589	$ 788,141
Marketable securities (quoted market: 1981, $10,710,811; 1980, $15,016,479)	10,641,983	14,640,143
Accounts receivable (less allowance for doubtful accounts: 1981, $20,000; 1980, $20,000)	4,477,603	4,062,389
Inventories (Note 2)	2,668,970	2,439,652
Deferred authorship costs and prepaid expenses	1,863,234	2,033,756
Furniture, equipment and leasehold improvements (Note 3)	3,925,734	2,788,245
	23,985,113	26,752,326
Funds held for Division for CPA Firms (Note 9)	1,106,773	631,942
Endowment and other restricted funds consisting principally of marketable securities (quoted market: 1981, $708,195; 1980, $680,038)	597,594	552,978
	$25,689,480	$27,937,246
Liabilities and Fund Balances		
Liabilities and deferred revenues:		
Accounts payable and other liabilities	$ 4,323,212	$ 5,126,969
Accrued taxes (Note 4)	325,000	205,869
Advance dues	6,128,850	7,139,816
Unearned publication subscriptions and advertising	2,911,457	3,803,811
	13,688,519	16,276,465
Funds held for Division for CPA Firms (Note 9)	1,106,773	631,942
Commitments and contingent liabilities		
Fund balances:		
General Fund	10,296,594	10,475,861
Endowment and other restricted funds	597,594	552,978
	10,894,188	11,028,839
	$25,689,480	$27,937,246

The accompanying summary of significant accounting policies and notes to financial statements are an integral part of these statements.

Statement of Revenues and Expenses

	Year ended July 31, 1981	1980 Restated (Note 1)
Revenues:		
Membership dues	$11,514,879	$10,674,110
CPA examination fees	3,748,395	3,569,182
Publications	10,896,148	10,472,368
Continuing professional education	12,214,809	9,896,723
Sundry self-sustaining programs	358,933	294,732
Investment and sundry income	1,906,694	1,551,983
Gain (loss) on sale of securities	96,175	(13,348)
	40,736,033	36,445,750
Expenses (see also summary of expenses by activity)		
Salaries and fees	$13,960,817	$12,256,097
Personnel costs	2,380,838	2,170,645
Occupancy	4,532,829	3,696,596
Printing and paper	8,675,912	7,867,424
Postage and shipping	2,506,609	2,145,287
Meetings and travel	2,360,219	2,083,224
General and administrative	6,498,076	5,015,111
	40,915,300	35,234,384
Excess (deficiency) of revenues over expenses	$ (179,267)	$ 1,211,366

	1981	1980
Summary of expenses by activity:		
CPA examinations	$ 4,137,754	$ 3,846,301
Publications:		
Cost of sales	8,771,681	7,892,616
Distributed to members and others	2,776,013	2,230,055
Continuing professional education	12,287,140	9,988,647
Technical:		
Accounting and review services	136,795	126,767
Accounting standards	576,737	560,987
Auditing standards	1,392,849	1,292,737
Federal taxation	518,140	445,997
Management advisory services	200,478	153,717
Computer services	336,104	345,235
International practice	365,313	330,817
Quality control standards	211,352	240,038
Technical assistance to members	533,341	416,605
Library service	550,991	480,672
Information retrieval and index programs	396,833	325,018
Financial Accounting Foundation contribution	322,648	299,175
Accountants' legal liability	119,486	121,050
Regulation:		
Ethics and trial board	1,096,840	802,431
Division for CPA Firms	554,991	607,441
Peer review	548,387	370,957
State legislation	232,687	214,947
Organization and membership:		
Board, council and annual meetings	643,843	513,535
Nominations and committee appointments	100,076	80,700
Communications with members	185,597	135,090
Membership admissions and records	611,229	579,346
Membership benefit plans	92,210	69,136
Special organizational studies	77,143	45,301
Communications with other groups:		
Public relations	612,367	445,677
State societies	262,646	340,741
Universities	462,468	363,872
Federal government	1,359,355	1,186,399
Assistance programs for minority students and businesses	441,806	382,377
	$40,915,300	$35,234,384

The accompanying summary of significant accounting policies and notes to financial statements are an integral part of these statements.

American Institute of Certified Public Accountants

Statement of Changes in Fund Balances

	Year ended July 31, 1981	1980
General Fund:		
Balance at beginning of year, as previously reported	$10,913,979	$ 9,638,712
Adjustment for the cumulative effect on prior years of applying retroactively the new method of accounting for compensated absences (Note 1)	(438,118)	(374,217)
Balance at beginning of year, as adjusted	10,475,861	9,264,495
Excess (deficiency) of revenues over expenses	(179,267)	1,211,366
Fund balance, end of year	$10,296,594	$10,475,861
Endowment and other restricted funds:		
Fund balances, beginning of year	$ 552,978	$ 536,486
Excess of revenues over expenses	191	114
Gain on sale of securities	44,425	16,378
	44,616	16,492
Fund balances, end of year	$ 597,594	$ 552,978
	$10,894,188	$11,028,839

American Institute of Certified Public Accountants

Statement of Changes in Financial Position

	Year ended July 31, 1981	1980 Restated (Note 1)
Cash and marketable securities, beginning of year	$15,428,284	$13,871,588
Sources of funds:		
From operations:		
Excess (deficiency) of revenues over expenses	(179,267)	1,211,366
Add back expenses not requiring outlay of funds—depreciation and amortization including amortization of authorship costs	1,393,129	1,222,607
	1,213,862	2,433,973
Increase (decrease) in liabilities and deferred revenues:		
Accounts payable and other liabilities	(803,757)	2,132,481
Accrued taxes	119,131	12,663
Advance dues	(1,010,966)	(98,014)
Unearned publication subscriptions and advertising	(892,354)	1,608,225
	(1,374,084)	6,089,328
Uses of funds:		
Additions to deferred authorship costs and prepaid expenses	729,430	1,788,753
Additions to furniture, equipment and leasehold improvements	1,630,666	926,068
Increase in other assets:		
Receivables	415,214	1,196,235
Inventories	229,318	621,576
	3,004,628	4,532,632
Increase (decrease) in funds:		
Cash	(380,552)	(81,569)
Marketable securities	(3,998,160)	1,638,265
	(4,378,712)	1,556,696
Cash and marketable securities, end of year	$11,049,572	$15,428,284

The accompanying summary of significant accounting policies and notes to financial statements are an integral part of these statements.

Balance Sheet— July 31,

	American Institute of Certified Public Accountants Foundation		American Institute Benevolent Fund, Inc.		Accounting Research Association, Inc.	
	1981	1980	1981	1980	1981	1980
Assets:						
Cash	$ 20,330	$ 4,990	$ 11,945	$ 13,519	$ 12,656	$ 6,052
Marketable securities (see note)	717,070	676,465	767,510	688,850	644,000	1,306,000
Notes and mortgages receivable (net of allowance for doubtful accounts: 1981, $57,679, 1980, $24,316)	–	–	21,200	20,200	–	–
Dues receivable	–	–	–	–	252,766	154,022
Other receivables	5,373	4,640	15,480	15,630	9,578	9,558
Prepaid FASB subscription service	–	–	–	–	77,200	58,200
	$742,773	$686,095	$816,135	$738,199	$996,200	$1,533,832
Liabilities and Fund Balance						
Liabilities and Deferred Credits:						
Accounts payable	$ 270	$ 1,410	$ 522	$ 200	$ 92,870	$ 70,520
Unearned advanced dues	–	–	–	–	398,280	376,578
Scholarships payable	214,250	179,500	–	–	–	–
	214,520	180,910	522	200	491,150	447,098
Fund Balances:						
General	19,478	17,157	815,613	737,999	505,050	1,086,734
Library	105,825	102,652	–	–	–	–
John L. Carey Scholarship Fund	91,698	85,507	–	–	–	–
Accounting Education Fund for Disadvantaged Students	311,252	299,869	–	–	–	–
	528,253	505,185	815,613	737,999	505,050	1,086,734
	$742,773	$686,095	$816,135	$738,199	$996,200	$1,533,832
NOTE:						
Marketable securities at market	$757,704	$719,168	$813,743	$760,491	$644,000	$1,306,000

Statement of Changes in Fund Balances— Year Ended July 31,

	AICPA Foundation 1981	AICPA Foundation 1980	Benevolent Fund 1981	Benevolent Fund 1980	Accounting Research Association 1981	Accounting Research Association 1980
Additions:						
Investment income	$ 61,758	$ 53,915	$ 71,481	$ 54,298	$ 104,455	$ 138,330
Contributions/dues	284,325	268,054	83,840	91,644	933,006	911,162
Other	–	–	6,700	5,355	–	–
	346,083	321,969	162,021	151,297	1,037,461	1,049,492
Deductions:						
Contributions/scholarships	333,980	313,165	–	–	1,440,522	954,229
Assistance to members and families	–	–	101,415	73,754	–	–
FASB subscription service	–	–	–	–	155,548	131,464
Other	1,356	3,005	5,394	3,660	23,075	23,096
	335,336	316,170	106,809	77,414	1,619,145	1,108,789
Increase (decrease) in fund balance	10,747	5,799	55,212	73,883	(581,684)	(59,297)
Gain on sale of securities	12,321	6,503	22,402	1,263	–	–
Net increase (decrease) in fund balance	23,068	12,302	77,614	75,146	(581,684)	(59,297)
Fund balance, beginning of year	505,185	492,883	737,999	662,853	1,086,734	1,146,031
Fund balance, end of year	$528,253	$505,185	$815,613	$737,999	$ 505,050	$1,086,734

The accompanying summary of significant accounting policies and notes to financial statements are an integral part of these statements.

American Institute of CPAs and Related Organization Funds

Summary of Significant Accounting Policies

Following is a summary of the significant accounting policies of the American Institute of Certified Public Accountants (Institute) and, where applicable, the American Institute of Certified Public Accountants Foundation (Foundation), the American Institute Benevolent Fund, Inc. (Benevolent Fund), and the Accounting Research Association, Inc. (ARA):

- Assets and liabilities, and revenues and expenses, are recognized on the accrual basis of accounting.
- Marketable securities are stated at the lower of aggregate cost or market. If there is a decline in market value below cost, the resultant valuation reserve is shown separately as a reduction of the fund balance. Realized gains and losses on security transactions are included in operations.
- Inventories are stated at the lower of cost (primarily first-in, first-out) or market.
- Authorship cost applicable to publications and continuing professional education courses, which the Institute expects will be sold in the future, are amortized over a three-year period.
- Furniture, equipment and leasehold improvements are stated at cost, less accumulated depreciation and amortization computed on the straight-line method. Furniture and equipment are depreciated over their estimated useful lives of from five to ten years and leasehold improvements are amortized over the shorter of the useful lives of the improvements or the lease period.
- Dues are recorded by the Institute as revenues in the applicable membership period. Dues of ARA members are assessed on a calendar year basis and recorded as additions to fund balance ratably over each calendar year.
- Subscription and advertising revenues are recorded in operations when publications are issued.
- Contributions to specific funds are recorded as additions to fund balances in the applicable support period; pledges received by the Foundation in support of future periods are recorded, and allowances for estimated uncollectible pledges are provided.
- Notes and mortgages received by the Benevolent Fund in consideration for assistance payments to members and their families are recorded as additions to fund balance in the period received, net of amounts deemed uncollectible.
- The Institute has a retirement plan covering all eligible employees. Pension expense is accrued in accordance with an actuarial cost method and, although the plan may be terminated by the Institute at any time, it is the Institute's policy to fund pension cost accrued. Prior service costs under the plan are being funded over a 30-year period, except such costs related to retired persons are being funded over a 10-year period.

Notes to Financial Statements July 31, 1981 and 1980

1. Accounting Change

During the year ended July 31, 1981, the Institute elected early application of Financial Accounting Standards Board Statement No. 43 "Accounting for Compensated Absences." In prior years, no liability was recorded for employees' compensation for future absences, principally related to vacation pay. In accordance with the treatment prescribed by this Statement, the accounting change was applied retroactively and the 1980 financial statements have been restated.
This change resulted in additional expenses of $70,143 and $63,901 for the years ended July 31, 1981 and 1980, respectively.

2. Inventories

Inventories of the Institute at July 31, 1981 and 1980 consisted of the following:

	1981	1980
Paper and material stock	$ 601,984	$ 534,038
Publications in process	465,608	510,681
Printed publications and continuing professional education course material	1,601,378	1,394,933
	$2,668,970	$2,439,652

3. Furniture, Equipment and Leasehold Improvements

The following presents the amounts of furniture, equipment and leasehold improvements of the Institute at July 31, 1981 and 1980:

	1981	1980
Furniture and equipment	$3,276,765	$2,558,362
Leasehold improvements	2,859,256	1,966,972
	6,136,021	4,525,334
Less accumulated depreciation and amortization	2,210,287	1,737,089
	$3,925,734	$2,788,245

Depreciation and amortization charged to operations for the years ended July 31, 1981 and 1980 amounted to $491,444 and $353,960, respectively.

4. Taxes

The Institute is a professional organization under Section 501(c)(6) of the Internal Revenue Code. The Institute is subject to a tax only on unrelated business income.

5. Lease Commitments

Rental commitments under noncancellable leases in effect as of July 31, 1981 aggregated approximately $34,483,000. This amount is exclusive of any future escalation charges for real estate taxes and building operating expenses. The principal lease (which has a 20 year base period) commenced in 1974 and can be terminated at the end of 15 years if certain penalties are paid by the Institute. The minimum rental commitments are summarized below:

Year Ended July 31,	
1982	$ 2,690,000
1983	2,613,000
1984	2,496,000
1985	2,509,000
1986	2,521,000
years subsequent to 1986	21,654,000
	$34,483,000

Rental expense for the years ended July 31, 1981 and 1980 approximated $3,399,000 and $2,611,000 respectively.

6. Retirement Plan

Pension expense relating to the Institute's retirement plan amounted to approximately $724,000 and $749,000 for the years ended July 31, 1981 and 1980, respectively. The estimated amount required to fund prior service costs under the plan is $1,515,000 as of May 1, 1981. The accumulated plan benefits and plan net assets available as of the most recent valuation dates are shown below:

	May 1, 1981	May 1, 1980
Actuarial present value of accumulated plan benefits:		
Vested	$5,510,470	$5,286,259
Non-vested	1,091,087	872,464
	$6,601,557	$6,158,723
Net assets available for benefits	$7,404,363	$5,615,849

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6 percent compounded annually for both 1980 and 1981.

7. Commitment of Foundation Funds

The Foundation plans to distribute, from the Accounting Education Fund for Disadvantaged Students, approximately $350,000 each year for scholarships to minority students and to assist in strengthening the accounting faculty of minority universities.

8. Commitment to Financial Accounting Foundation (FAF)

The Accounting Research Association, Inc. (ARA) has stated its intent to use its best efforts to raise sufficient funds from sources within the accounting profession to ensure that the FAF receives $1,000,000 annually in each of the five years commencing January 1, 1978.

9. Division for CPA Firms

The AICPA acts as custodian of the cash and marketable securities of the Division for CPA Firms. These are shown on the accompanying balance sheet as assets and liabilities in offsetting amounts. At July 31, 1981, the amounts were as follows:

	Cash	Marketable Securities	Total
Private Companies Practice Section	$10,780	$ 290,565	$ 301,345
SEC Practice Section	993	804,435	805,428
	$11,773	$1,095,000	$1,106,773

The Division's balance sheet and statement of changes in fund balances on the accrual basis follow:

Balance Sheet	July 31, 1981 Private Companies Practice Section	SEC Practice Section
Assets:		
Cash	$ 10,780	$ 993
Marketable securities (quoted market $1,095,000)	290,565	804,435
Dues and other receivables	16,270	14,453
Prepaid expenses	—	28,364
	$317,615	$848,245
Liabilities and Fund Balances		
Accounts payable	$ 32,042	$ 72,325
Unearned advance dues	38,427	402,317
Fund balances	247,146	373,603
	$317,615	$848,245

Statement of Changes in Fund Balances	Year Ended July 31, 1981	
Additions:		
Dues	$ 80,524	$ 972,470
Other	33,058	67,663
	113,582	1,040,133
Deductions:		
Expenses of Public Oversight Board:		
Salaries and fees		495,850
Legal fees		29,856
Other administrative costs		165,615
Administrative expenses of PCPS	29,045	
	29,045	691,321
Net increase in funds	84,537	348,812
Funds balances, beginning of year	162,609	24,791
Fund balances, end of year	$247,146	$ 373,603

The AICPA incurred expenses during the year ended July 31, 1981 in support of the Division for CPA Firms and in connection with related peer reviews which are included in the accompanying Summary of Expenses by Activity.

10. Special Purpose and Related Organization Funds

The purposes of the special and related organization funds are as follows:

Endowment Fund. To maintain a reference library and reading rooms for members of the Institute. Investment income from marketable securities held by the Endowment Fund is included as revenue of the General Fund in accordance with provisions of the endowment.

Foundation. To advance the profession of accountancy and to develop and improve accountancy education.

Benevolent Fund. To solicit, collect and otherwise raise money to provide financial assistance to needy members of the Institute and their families.

Accounting Research Association, Inc. To encourage research in accounting and related areas of CPA practice through a best efforts commitment to provide financing for the Financial Accounting Foundation.

Supplementary Information (Unaudited)

FASB Statement No. 33, Financial Reporting and Changing Prices, requires that certain publicly held companies present information about the effects of price changes and encourages other enterprises, including non-business organizations, to experiment with such information. This supplementary information was prepared in response to *FASB Statement No. 33.*

The historical cost financial data adjusted for general inflation is the result of restating all historical revenue and expense measurements in terms of dollars of average 1980-81 general purchasing power as reflected by the Consumer Price Index. Restatement of the prior years' reported results in terms of a constant measuring unit, today's dollars, makes all years comparable. When adjusted for .he effect of general inflation, the five-year presentation more clearly portrays the trends in revenues, expenses and general fund balances.

The inflation-adjusted data indicates that the Institute's revenue and expense have increased at a rather modest rate when compared to the increases on a historical basis. As previously reported over the last five years, revenue has increased by 72.4% and expenses increased by 87.4%. When adjusted for the effects of inflation, these rates of increase are 16.4% and 26.7%, respectively. For the year ended July 31, 1981, expenses exceeded revenues on a historical and constant dollar basis by $179,000 and $434,000, respectively as a result of the impact of high inflation and expanded member services. Thus, for the first time since 1975-76, the Board of Directors find it necessary to request an increase in members' dues for fiscal 1982-83. In considering this request, the Board observed that on a price-level adjusted basis, membership dues have declined by 10% over the past five years even though during that period membership itself has risen by 43%.

General inflation also causes a loss of purchasing power from holding net monetary assets (the excess of cash, deposits, commercial paper, notes, and receivables over current payables). The Institute's investments in commercial paper and notes are income-earning assets, but from fiscal 1976 to 1981, annual interest income did not offset each year's loss in purchasing power on all net monetary assets. Basically, the rate of inflation exceeded the rate of earnings on investments.

During the five years ended July 31, 1981, the Institute reported depreciation expense of $1,622,000 on a historical cost basis. On a constant dollar basis, depreciation was $2,838,000 during this period. The constant dollar cost of furniture, equipment, and leasehold improvements as of July 31, 1981, net of accumulated depreciation and amortization.was $4,726,000 compared to a historical cost value of $3,925,734.

Supplementary Information 1977-1981 *(Thousands of Dollars)*

Historical Cost Financial Data As Reported in the Financial Statements	Year Ended July 31,				
	1981	**1980**	**1979**	**1978**	**1977**
Revenues:					
Membership dues	$11,515	$10,674	$ 9,891	$ 9,241	$ 8,606
CPA examination fees	3,748	3,569	3,284	2,966	2,672
Publications	10,896	10,473	8,445	7,896	6,377
Continuing professional education	12,215	9,897	7,748	6,076	5,134
Other, net	2,362	1,833	1,599	1,114	837
	$40,736	$36,446	$30,967	$27,293	$23,626
Percent increase over prior year	11.8%	17.7%	13.5%	15.5%	9.2%
Expenses:					
Salaries and fees	$13,961	$12,256	$10,549	$ 9,177	$ 8,138
Personnel costs	2,381	2,171	1,628	1,560	1,349
Occupancy	4,533	3,696	3,198	2,748	2,500
Printing and paper	8,676	7,867	6,550	5,893	4,924
General	11,364	9,245	7,470	6,109	4,922
	$40,915	$35,235	$29,395	$25,487	$21,833
Percent increase over prior year	16.1%	19.9%	15.3%	16.7%	9.1%
Excess (deficiency) of revenues over expenses	$ (179)	$ 1,211	$ 1,572	$ 1,806	$ 1,793
Percent increase (decrease) over prior year	—	(23.0%)	(13.0%)	0.7%	10.6%
General Fund balance at end of year	$10,297	$10,476	$ 9,639	$ 8,067	$ 6,235
Percent increase (decrease) over prior year	(1.7%)	8.7%	19.5%	29.4%	39.5%
Historical Cost Financial Data Adjusted for General Inflation *(in Average 1980-1981 Dollars)*					
Revenues:					
Membership dues	$11,515	$11,891	$12,502	$12,817	$12,746
CPA examination fees	3,748	3,976	4,151	4,114	3,957
Publications	10,896	11,667	10,675	10,952	9,444
Continuing professional education	12,215	11,025	9,793	8,427	7,603
Other, net	2,362	2,042	2,021	1,545	1,240
	$40,736	$40,601	$39,142	$37,855	$34,990
Percent increase over prior year	.3%	3.7%	3.4%	8.2%	3.0%
Expenses:					
Salaries and fees	$13,961	$13,653	$13,334	$12,729	$12,052
Personnel costs	2,381	2,418	2,058	2,164	1,998
Occupancy	4,788	4,332	4,174	3,933	3,870
Printing and paper	8,676	8,764	8,279	8,174	7,292
General	11,364	10,299	9,442	8,473	7,290
	$41,170	$39,466	$37,287	$35,473	$32,502
Percent increase over prior year	4.3%	5.8%	5.1%	9.1%	3.1%
Excess (deficiency) of revenues over expenses	$ (434)	$ 1,135	$ 1,855	$ 2,382	$ 2,488
Percent increase (decrease) over prior year	—	(38.8%)	(22.1%)	(4.3%)	2.2%
Loss of purchasing power on net monetary assets	$ 1,103	$ 1,576	$ 1,304	$ 739	$ 475
General Fund balance at end of year	$ 9,824	$11,361	$11,802	$11,251	$ 9,608
Percent increase (decrease) over prior year	(13.5%)	(3.7%)	4.9%	17.1%	26.5%
Average Consumer Price Index for fiscal year	261.8	235.1	207.1	188.8	176.8
Percent increase over prior year	11.4%	13.5%	9.7%	6.8%	5.9%

SOURCES AND OCCUPATIONS OF AICPA MEMBERSHIP

	1973	1974	1975	1976	1977	1978	1979	1980	1981
Total AICPA Membership	95,415	103,863	112,494	121,947	131,300	140,158	149,314	161,319	173,900
Public Accounting	59.8%	60.0%	59.1%	58.5%	57.5%	57.6%	55.0%	54.1%	53.3%
Business, Industry, Miscellaneous	33.6%	33.6%	34.6%	35.2%	36.2%	36.2%	38.6%	39.7%	40.4%
Education	3.1%	3.0%	2.9%	2.9%	2.8%	2.8%	3.0%	2.9%	2.8%
Government	3.5%	3.4%	3.4%	3.4%	3.5%	3.4%	3.4%	3.3%	3.3%
Membership in Public Practice	57,057	62,430	66,506	71,314	75,528	80,723	82,141	87,339	93,082
Firms with one member	20.9%	21.5%	22.1%	22.3%	22.1%	23.9%	23.5%	23.8%	22.0%
Firms with 2 to 9 members	31.5%	30.5%	29.7%	30.0%	30.1%	29.9%	32.3%	33.1%	33.8%
Firms with 10 or more members, except the	8.7%	9.3%	10.1%	11.1%	12.0%	11.8%	12.6%	13.0%	14.4%
25 largest firms	38.9%	38.7%	38.1%	36.6%	35.8%	34.4%	31.6%	30.1%	29.8%