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AICPA annual report 1983-84; Message to members

American Institute of Certified Public Accountants

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AICPA

ANNUAL REPORT 1983-84

American Institute of Certified Public Accountants

"AICPA—approaching its centennial, the membership approaching the quarter-million mark—has become a substantial and influential body through its ability to serve members and the public."

Message to Members

The pace of change has quickened markedly in the accounting profession this year. Expanding computer technology, changes in business practices, growth in the profession's ranks, and an expansion of services all have had their impact on the membership. The Institute's response has been to accelerate its search for ways to improve existing services for members and to develop new ones. This report describes some of the steps taken to prepare the profession for a future which promises to be very different from anything previously experienced.

The Future and Member Services

The Future Issues Committee issued its first report during the year just ended. The committee has been considering how developing issues are likely to affect the content of the CPAs work, the conditions under which that work will be accomplished and the impact of these developments on the Institute. In all, fourteen issues have been identified and recommendations made for their further study. Two specific suggestions are also being implemented: establishment within the Institute of a formalized strategic planning process and development of a system to identify and monitor potentially high impact trends.

One of the fourteen issues listed by the committee relates to changes in the composition of Institute membership. A major contribution to the study of this subject is expected from the AICPA Mission Committee, which is midway in its considerations of the Institute's mission. The committee is charged with examining the objectives of the AICPA as those objectives relate to all of its members, whether in public practice, industry, government or education. Among other matters, it will consider if the AICPA's traditional focus on public practitioners continues to be appropriate. In its search for trends and events—both within the profession and the business environment—the committee is canvassing views of members, business leaders and government officials. The planning for and provision of member services, which is a primary concern of the Institute, will benefit from this special committee's deliberations.

Finally, an operational audit of Institute staff activities resulted in recommendations to enhance member services, communications and public relations as well as strategic planning. Collectively, these efforts should position the Institute to anticipate and effect change rather than responding after it is upon us.

Standards of Professional Conduct

The Special Committee on Standards of Professional Conduct—at meetings spaced six weeks apart—is examining the relevancy of present ethical standards to professionalism, integrity and commitment to both quality service and the public interest. In the light of a changing economic, social, legal and regulatory climate, a fundamental study of these issues was felt to be necessary. The committee is using discussion groups of CPAs and informed users of CPA services to sample opinions and bring into sharper focus diverse attitudes and expectations.

Meanwhile, the Professional Ethics Executive Committee is resuming enforcement of Rule of Conduct 302—Contingent Fees, following Council's decision at the Spring Meeting not to go forward with a member ballot seeking to amend that rule to allow contingent fees when independence is not involved.

Division for CPA Firms

This past year, special committees reported on their reviews of the activities of the Division for CPA Firms' two sections—the SEC Practice Section and the Private Companies Practice Section. Separately, the committees reached the common conclusion that the division is effectively helping foster quality performance. However, the committees went on to suggest that improvements can be made in two broad areas: new, additional member services, and an information program to make the public more aware of the division and its objectives. Additionally, PCPS was asked to strive to make peer review more cost-effective for very small firms. Looking ahead, PCPS also is laying the groundwork for a consultation service to assist members confronting specialized industry problems.

Standard Setting

Standard setters are facing a number of important developments. In recognition of increased requests of members in public practice to give assurance to third parties on information other than financial statements, the Institute's Auditing Standards Board is developing an approach designed to promote consistency among different types of reports, thus enhancing their acceptance.

Another significant development was creation of a standard setting body to establish accounting standards for state and local government units. After several years of difficult negotiations, a Governmental Accounting Standards Board made up of representatives from both government and the private sector has been organized under the auspices of the Financial Accounting Foundation to improve the financial reporting of state and local governments.

Accounting standards responsive to the needs of American business—large and small—continues to have priority status in the eyes of both the Financial Accounting Standards Board and AICPA. In spite of determined efforts to achieve that objective, a dilemma remains: how to reconcile the desire for less complex rules against the need to deal with pressing practice problems. The FASB has sought to deal with this issue by creating an emerging issues task force to discuss and perhaps reach a consensus on new developments before they become major issues. The scope of FASB technical bulletins is also being expanded to provide more timely guidance on financial reporting.

The Private Companies Practice Section's Technical Issues Committee (TIC)—as advocate for CPAs serving private companies—continues its deep interest in standards setting. All proposed changes in standards are monitored and screened by that group. Its views were formally presented to standard setters on ten occasions

in 1984. However, TIC's less formal communications have also had an impact; TIC members participate in in-depth discussions with those developing new standards to bring to the standard setters the views of those who are concerned with the needs of small business.

On the international scene the Institute maintains its active involvement in long-range projects which are aimed at promoting harmony in worldwide accounting and auditing standards and practices through participation in the International Federation of Accountants and the International Accounting Standards Committee.

AICPA in Washington

The Institute continues to have excellent relationships with officials in Washington. In no small way, the outcome of a recently announced Congressional inquiry to explore the effectiveness of SEC oversight of the accounting profession and of the profession's own self-regulatory programs may reflect the progress made by our ongoing communications programs with the lawmakers. As non-accountants, they usually welcome information about our profession and its role in society. We attempt to satisfy that need through our continuing program of Congressional breakfasts—open and lively discussions among the Institute, state society representatives and federal legislators who are encouraged to seek advice from the profession in resolving national issues. These sessions put us in contact this year with eight more state delegations of senators, congressmen and staff aides.

The Federal Key Person program is another means of communicating with lawmakers. Essentially, this is an effort to keep CPAs informed of developments in Washington, especially those who have contact with their congressional representatives and who can be effective conduits to the lawmakers. In the past this program has proven of great value to the profession's ability to inform the Congress of constituent views. Another program, the Institute PAC, channels modest contributions to federal legislators—without regard to political affiliations—as a way of supporting the overall political system.

The AICPA has established a legislative priority to amend a federal law having a serious impact on accountants' liability. The law, known as RICO (Racketeer Influenced and Corrupt Organization Act of 1970), was enacted to help curb organized crime, but is now being applied by courts to respected business and accounting firms. RICO reaches these targets—that we believe were unintended—as allegations of fraud escalate unfairly into charges of racketeering—with the potential of triple damages. Sizeable judgments or settlements have been involved. Compounding the problem, nineteen states have their own "little RICO" laws. AICPA's Board of Directors has assigned the highest priority to seeking action to prevent continued abuse of the RICO's civil remedies.

The AICPA's Committee on Small Business and four leading small business advocacy organizations sponsored the National Small Business Issues Conference in Washington, D.C. Conferees discussed about forty issues of concern to small business, assigned priorities and developed recommendations for action responses. Congressional leaders received a preliminary report; the final report will be widely circulated.

Tax Division

The Tax Division continues in its important role, serving members and the public by helping the IRS spot technical flaws in tax bills and identify thorny issues. In the wake of the Supreme Court decision allowing IRS access to accountants' tax accrual workpapers, concern was expressed that widespread access to such workpapers could impede the audit process. IRS responded quickly to the AICPA request for clarification by announcing it would continue existing rules that limit such access only to unusual circumstances—as a collateral source, and only after the primary sources have been exhausted.

Last year, the Council established a voluntary membership division within the Institute for those interested in the tax area. It was a move capping discussions that reach back at least 30 years. In the months since the division was founded, membership has risen to more than 11,000—reflecting member desires for greater opportunities to expand competence, to discuss commonly-shared technical and professional problems and to share special knowledge. Individual CPAs are not the sole beneficiaries. The profession too will benefit by the division's demonstration of the preeminent role of CPAs in taxes, and by its involving more members in the AICPA tax activities.

State Regulation

This fall, a new Model Public Accountancy Bill is scheduled to be published. Because this represents a bringing together of separate bills endorsed by AICPA and NASBA, its publication will have an important impact on our state legislative programs. This eliminates the potential for confusion resulting from different versions. The result is that accounting legislation in the public interest will be more attainable—an important step forward in light of the number of states that are in the midst of reviewing licensing laws.

Meanwhile, other changes that could result from actions before the courts or state legislatures are being actively addressed. Three suits were filed to strike down state statutes or board rulings that require licensure for compilation or review reports. Mandatory CPE is also being questioned by a number of legislatures.

Other events of note during the year included: a

second annual conference bringing together leaders of the AICPA and the National Association of State Boards of Accountancy to discuss strategies for dealing with state regulatory issues; completion of the first year of operations of the Examination Services Corp., a joint venture of NASBA and AICPA for administering the CPA examination, when requested; and finalization of a study of the implications and pitfalls of placing licensure under state central licensing departments.

Another question being considered is whether the right knowledge is being tested in the Uniform CPA Examination. A task force studied what CPAs do in public practice and determined what skills are demanded by professional engagements. Ultimately its findings will be compared with the examination's content specifications, and appropriate modifications will be considered.

Education

Recognizing that recent changes have significantly increased the knowledge requirements for CPAs, the independent Commission on Professional Accounting Education concluded that there is a need to actively promote a postbaccalaureate education requirement to sit for the Uniform CPA Examination. As a result, the Institute appointed a special committee to develop a strategy for and to assist in implementing a legislative requirement in selected key states.

In a further effort to improve the quality of accounting education, the Institute initiated a program of financial assistance, which, after a phase-in period, will provide \$150,000 a year for thirty doctoral candidates in accounting. The Institute has also created an outstanding educator award and the State CPA Societies are being invited to submit nominations.

The Institute has undertaken an ambitious project of developing a national CPE curriculum aimed at improving the quality of CPE programming. More than 100 volunteers, organized in task forces, are building recommended curriculum learning units classified in eight disciplines: tax, accounting and auditing, practice management, personal development, accounting and finance for managers, management advisory services, specialized industries and government. The development stage should be completed next spring. Implementation, expected to take two years or more, will begin shortly thereafter.

Meanwhile, the CPE Division has underway a systematic review of its hundreds of courses with an eye toward upgrading their quality. Moreover, the Institute is collaborating with state societies on ways to improve the delivery of educational training through coordinated in-house programs and by offering more advanced-level seminar programs.

Publications

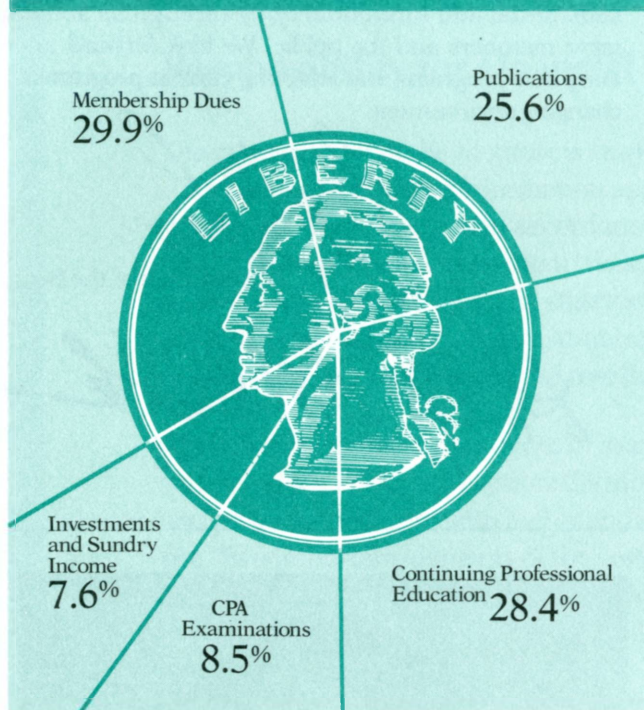
Circulation of AICPA's periodicals and newsletters rose again last year as the editors strove to improve the mix between technical and non-technically oriented articles. There are currently 265,000 copies of the *Journal of Accountancy* distributed monthly. A recent survey indicated that the members want greater coverage of tax developments and news of the profession.

A quicker response to changing needs was exemplified by the *CPA Client Bulletin* on the impact of the 1984 Tax Reform Act. A week after signature by the President, a special issue devoted to the topic was in the mail to subscribers.

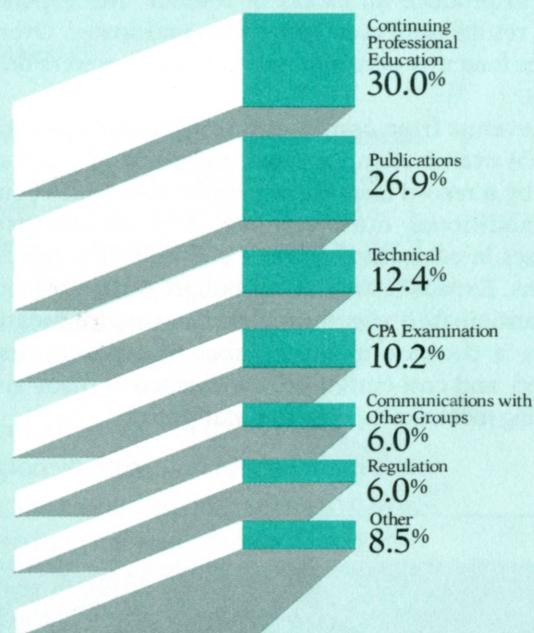
SOURCES AND OCCUPATIONS OF AICPA MEMBERSHIP

	1976	1978	1980	1982	1984
Total AICPA Membership	121,947	140,158	161,319	188,706	218,855
Public Accounting	58.5%	57.6%	54.1%	52.5%	51.5%
Business and Industry	30.9%	31.9%	35.5%	37.6%	38.4%
Education	2.9%	2.8%	2.9%	2.5%	2.7%
Government	3.4%	3.4%	3.3%	3.2%	3.3%
Retired and Others	4.3%	4.3%	4.2%	4.2%	4.1%
Membership in Public Practice	71,314	80,723	87,339	99,141	112,673
Firms with one member	22.3%	23.9%	23.8%	23.5%	23.1%
Firms with 2 to 9 members	30.0%	29.9%	33.1%	34.0%	34.0%
Firms with 10 or more members, except the 25 largest firms	11.1%	11.8%	13.0%	14.5%	15.1%
	36.6%	34.4%	30.1%	28.0%	27.8%

REVENUE BY SOURCE



EXPENSE BY ACTIVITY



Other Member Services

The caliber of AICPA services to members is affected by the accuracy of our data about the membership. To expand our knowledge, we conducted a member survey that generated 190,000 responses. The information, on member interests, occupations, type and size of organization, and industry specialization will help in the planning and developing of member services. Also, the data updates mailing information, enabling us to target those most interested in a particular subject.

A number of new services were introduced this year. They include a group personal liability umbrella insurance plan, improved access to the National Automated Accounting Research System (NAARS) used to access accounting data bases, and an inquiry service that will identify sources of computer hardware and software for specific applications.

Special attention to the needs of industry members has prompted broader conferences on technical and managerial topics, plus new, specialized CPE courses keyed to industry member requirements. Additionally, conferences for corporate controllers are being planned as part of task force recommendations for upgrading services.

AICPA's professional liability insurance plan—the

nation's largest liability insurance program for CPAs—currently insures more than 13,000 practice units. More than 108,000 members are covered by the AICPA life insurance plan.

Administrative Matters

An active investment committee—taking decisive steps to raise the performance level of AICPA investments—reduced the number of investment funds, set realistic investment objectives, engaged consultants to evaluate investment performance quarterly, named an investment adviser, and computerized AICPA's procedures for accounting for investments. Those moves reflect our awareness that a volatile market demands adroit investment decisions.

As mentioned earlier, a study of the organization and operations of the staff was conducted by independent consultants. In addition to recommending greater emphasis on strategic planning, member services, communications, and public relations, the consultants recommended a reduction in the number of executive staff officers reporting directly to the President and the creation of several new positions as well as the realignment of others. Implementation of the consultants' recommendations is in process.

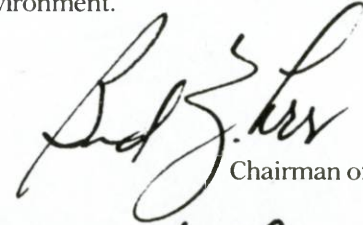
Finances

The Institute once again strengthened its financial position during 1983-84. While the fiscal year had been budgeted to produce an excess of revenue over expenses, actual results were even better than anticipated. Overall, revenue forecasts were met whereas expenses were below budget.

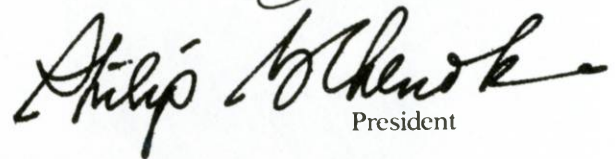
Revenue from continuing professional education and CPA examination fees was under budget. This was offset by a record increase in membership which generated additional dues revenue, and unanticipated increases in advertising revenue and sales of some publications. Expenses were under budget because of lower than anticipated continuing professional education activity, a decrease in the number of exposure drafts released, and cost cutting efforts directed at many areas including meetings expense and staff travel.

Conclusion

AICPA—approaching its centennial, the membership approaching the quarter-million mark—has become a substantial and influential body through its ability to serve members and the public. We look forward to creating new programs and adapting current programs to a changing environment.



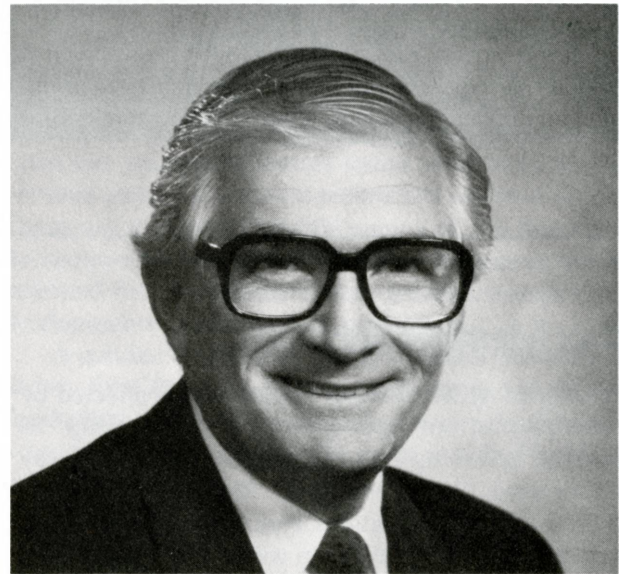
Chairman of the Board



President



Bernard Z. Lee



Philip B. Chenok

American Institute of Certified Public Accountants Board of Directors 1983-1984

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†Immediate Past Chairman
*Public Member

Responsibility for Financial Statements

The management of the Institute is responsible for the preparation of the financial statements and all other information appearing in this annual report. Financial statements were prepared in accordance with generally accepted accounting principles applied on a consistent basis. All financial information included in the report agrees with the financial statements. In preparing the financial statements, management makes informed estimates and judgments, with consideration given to materiality, about the expected results of various events and transactions.

Management maintains a system of internal accounting control that includes personnel selection, appropriate division of responsibilities, and formal procedures and policies consistent with high standards of accounting and administrative practice. Two important elements of the system are an internal audit function and an employee code of conduct. Consideration has been given to the necessary balance between the costs of systems of internal control and the benefits derived.

Management reviews and modifies its systems of accounting and internal control in light of changes in conditions and operations as well as in response to recommendations from the independent certified public accountants and the internal auditor. Management believes the accounting and internal control systems provide reasonable assurance assets are safeguarded and financial information is reliable.

The Board of Directors, through its Audit Committee of outside Directors, is responsible for determining that management fulfills its responsibilities in the preparation of financial statements and the control of operations. The Audit Committee recommends the independent certified public accountants to the Board of Directors. The Board presents this recommendation to the Council for approval. The Committee meets regularly with management, the independent certified public accountants, and the internal auditor; approves the overall scope of audit work and related fee arrangements, and reviews audit reports and findings. In addition, the independent certified public accountants and the internal auditor meet with the Audit Committee, without management present, to discuss audit results and other matters.

B. Z. Lee
Chairman of the Board



Park Avenue Plaza, 55 East 52nd Street, New York, NY 10055, Telephone: 212/909-5000

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, 1984 and 1983, and the related statements of revenue and expenses, changes in fund balances, and changes in financial position for the years then ended. We have also examined the balance sheet of the American Institute of Certified Public Accountants Foundation, the AICPA Benevolent Fund, Inc. and the Accounting Research Association, Inc. as of July 31, 1984 and 1983 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, 1984 and 1983, 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.

Main Hurdman

New York, New York
September 10, 1984

Financial Statements

American Institute of Certified Public Accountants

Balance Sheet

	July 31,	
	1984	1983
Assets:		
Cash	\$ 732,298	\$ 284,396
Marketable securities (quoted market: 1984, \$20,480,366; 1983, \$18,512,606)	20,311,779	18,108,816
Accounts receivable (less allowance for doubtful collections: 1984, \$50,000; 1983, \$50,000)	6,314,917	5,205,050
Inventories (Note 1)	3,677,330	2,335,628
Deferred authorship costs and prepaid expenses	2,320,085	1,761,879
Furniture, equipment and leasehold improvements (Note 2)	4,449,523	4,193,461
	<u>37,805,932</u>	<u>31,889,230</u>
Funds held for Division for CPA Firms (Note 9)	1,615,681	1,457,931
Endowment and other restricted funds consisting principally of marketable securities (market: 1983, \$819,366) (Note 8)	—	648,384
	<u>\$39,421,613</u>	<u>\$33,995,545</u>
 Liabilities and Fund Balances:		
Liabilities and deferred revenue:		
Accounts payable and other liabilities	\$ 6,792,369	\$ 5,361,768
Accrued taxes (Note 3)	755,000	560,000
Advance dues	5,044,816	7,307,641
Unearned revenue from subscriptions and other sources	6,391,384	3,626,048
	<u>18,983,569</u>	<u>16,855,457</u>
Funds held for Division for CPA Firms (Note 9)	1,615,681	1,457,931
Fund balances:		
General Fund	18,822,363	15,033,773
Endowment and other restricted funds (Note 8)	—	648,384
	<u>18,822,363</u>	<u>15,682,157</u>
	<u>\$39,421,613</u>	<u>\$33,995,545</u>

**American Institute of
Certified Public Accountants**

**Statement of
Revenue and Expenses**

	Year Ended July 31	
	1984	1983*
Revenue:		
Membership dues	\$17,841,176	\$16,642,722
Publications	15,262,288	13,621,488
Continuing professional education	16,950,401	16,395,385
CPA examinations	5,073,565	5,237,410
Investment and sundry income	3,115,008	2,422,624
Conferences	1,390,262	997,503
	<u>59,632,700</u>	<u>55,317,132</u>
Expenses (see also summary of expenses by activity):		
Salaries	15,572,983	15,061,574
Personnel costs	3,178,764	2,866,801
Occupancy	5,426,433	5,025,985
Printing and paper	9,691,721	8,422,871
Postage and shipping	3,311,911	3,023,274
Meetings and travel	3,930,449	3,337,302
Commercial services	3,530,810	3,175,962
Royalties	1,944,518	1,844,178
Promotion and advertising	1,805,768	1,418,751
Professional services	1,552,928	1,078,966
Stationery and reproduction services	828,657	828,335
Contributions	926,715	833,565
Telephone	833,206	807,176
Fees	784,990	544,150
General and administrative	2,524,257	2,183,507
	<u>55,844,110</u>	<u>50,452,397</u>
Excess of revenue over expenses	<u>\$ 3,788,590</u>	<u>\$ 4,864,735</u>

*Reclassified to conform to 1984 presentation.

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

**American Institute of
Certified Public Accountants**

**Summary of
Expenses by Activity**

	Year Ended July 31	
	1984	1983*
Summary of expenses by activity:		
CPA examinations	\$ 5,702,384	\$ 5,186,161
Publications:		
Cost of sales	11,560,124	10,396,697
Distributed to members and others	3,440,438	3,155,508
Continuing professional education	16,781,194	15,287,400
Conferences	984,339	830,934
Technical:		
Accounting and review services	74,349	112,339
Accounting standards	780,301	725,552
Auditing standards	1,653,782	1,621,737
Federal taxation	767,267	567,694
Management advisory services	387,826	330,951
Computer services	5,467	12,649
International practice	316,184	454,903
Technical assistance to members	685,395	566,411
Library	1,138,414	1,047,779
NAARS program	487,573	415,353
Financial Accounting Foundation contribution	499,034	377,416
Accountants' legal liability	118,464	145,602
Regulation:		
Ethics and trial board	1,168,189	1,134,866
State legislation	432,853	415,032
Division for CPA firms	814,815	727,543
Quality control programs	930,147	791,362
Organization and membership:		
Board, council and annual meetings	982,929	716,658
Nominations and committee appointments	152,045	106,374
Communications with members	395,145	381,787
Membership admissions and records	1,099,929	886,105
Membership benefit plans	74,286	71,288
Special organizational studies	476,739	285,807
Communications with other groups:		
Public relations	759,426	737,235
State societies	259,215	254,145
Universities	493,732	476,693
Federal government	1,851,190	1,689,401
Assistance programs for minority students and businesses	570,935	543,015
Total	<u>\$55,844,110</u>	<u>\$50,452,397</u>

*Reclassified to conform to 1984 presentation.

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

**American Institute of
Certified Public Accountants**

**Statement of Changes
in Fund Balances**

	Year Ended July 31	
	1984	1983
General Fund:		
Fund balances, beginning of year	\$15,033,773	\$10,169,038
Excess of revenue over expenses	3,788,590	4,864,735
Fund balances, end of year	<u>18,822,363</u>	<u>15,033,773</u>
Endowment and other restricted funds:		
Fund balances, beginning of year	648,384	623,088
Excess (deficiency) of revenue over expenses	—	(2,575)
Gain on sale of securities	—	27,871
Funds transferred to the AICPA Foundation (Note 8)	(648,384)	—
Fund balances, end of year	<u>—</u>	<u>648,384</u>
	<u>\$18,822,363</u>	<u>\$15,682,157</u>

**American Institute of
Certified Public Accountants**

**Statement of Changes
in Financial Position**

	Year Ended July 31	
	1984	1983
Sources of funds:		
Excess of revenue over expenses	\$ 3,788,590	\$ 4,864,735
Depreciation and amortization	1,980,180	2,375,436
Total from operations	5,768,770	7,240,171
Collections on subscriptions and advertising in excess of amounts earned	2,765,336	—
Collections on dues in advance of period to which they relate, net	—	221,686
Other, net	515,734	417,319
	<u>9,049,840</u>	<u>7,879,176</u>
Uses of funds:		
Dues earned in excess of amounts collected	2,262,825	—
Payment of authorship and other costs that will be expensed in the future	1,842,551	1,106,313
Investment in inventory	1,341,702	—
Amount of subscriptions and advertising earned in excess of amounts collected	—	1,294,117
Purchase of furniture, equipment, and leasehold improvements	951,897	726,291
	<u>6,398,975</u>	<u>3,126,721</u>
Net increase in funds balances	2,650,865	4,752,455
Cash and marketable securities, beginning of year	18,393,212	13,640,757
Cash and marketable securities, end of year	<u>\$21,044,077</u>	<u>\$18,393,212</u>

	American Institute of Certified Public Accountants Foundation		AICPA Benevolent Fund, Inc.		Accounting Research Association, Inc.	
	1984	1983	1984	1983	1984	1983
Balance Sheet—July 31,						
Assets:						
Cash	\$ 27,793	\$ 11,415	\$ 40,261	\$ 16,012	\$ 30,574	\$ 17,504
Marketable securities, at lower of cost or market*	1,864,648	882,691	1,110,818	977,751	665,258	426,000
Notes and mortgages receivable (net of allowance for doubtful collections 1984, \$49,519; 1983, \$37,610)	—	—	90,640	82,000	—	—
Dues receivable	—	—	—	—	391,050	638,075
Other receivables	35,137	4,694	19,082	19,342	18,559	4,204
Prepaid expenses	—	—	—	—	93,976	83,067
	<u>\$1,927,578</u>	<u>\$ 898,800</u>	<u>\$1,260,801</u>	<u>\$1,095,105</u>	<u>\$1,199,417</u>	<u>\$1,168,850</u>
Liabilities and Fund Balances:						
Liabilities and deferred revenue:						
Accounts payable	\$ 79,215	\$ 360	\$ 822	\$ 590	\$ 97,261	\$ 88,923
Unearned advanced dues	—	—	—	—	798,687	766,032
Scholarships payable	184,750	202,250	—	—	—	—
	<u>263,965</u>	<u>202,610</u>	<u>822</u>	<u>590</u>	<u>895,948</u>	<u>854,955</u>
Fund balances:						
General	109,988	92,796	1,259,979	1,094,515	303,469	313,895
Library	861,628	108,633	—	—	—	—
John L. Carey Scholarship Fund	194,863	97,098	—	—	—	—
Accounting Education Fund for Disadvantaged Students	496,127	397,663	—	—	—	—
E.W. Sells Award Fund	1,007	—	—	—	—	—
	<u>1,663,613</u>	<u>696,190</u>	<u>1,259,979</u>	<u>1,094,515</u>	<u>303,469</u>	<u>313,895</u>
	<u>\$1,927,578</u>	<u>\$ 898,800</u>	<u>\$1,260,801</u>	<u>\$1,095,105</u>	<u>\$1,199,417</u>	<u>\$1,168,850</u>

***NOTE:**

Marketable securities at market (m) or cost (c)	<u>\$1,886,762(m)</u>	<u>\$1,014,190(m)</u>	<u>\$1,113,077(m)</u>	<u>\$1,124,676(m)</u>	<u>\$ 667,148(c)</u>	<u>\$ 426,000(m)</u>
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**Statement of Changes
in Fund Balances—
Year Ended July 31**

Additions:						
Investment income	\$ 93,503	\$ 55,667	\$ 84,563	\$ 93,961	\$ 84,106	\$ 35,726
Contributions/dues	417,990	382,700	145,650	145,719	1,845,088	1,753,432
Transfer of Endowment Fund and Sells Fund from AICPA (Note 8) ...	648,384	—	—	—	—	—
	<u>1,159,877</u>	<u>438,367</u>	<u>230,213</u>	<u>239,680</u>	<u>1,929,194</u>	<u>1,789,158</u>
Deductions:						
Contributions/scholarships	354,505	346,798	—	—	1,694,040	1,343,344
Assistance to members and families .	—	—	126,543	123,266	—	—
FASB subscription service	—	—	—	—	203,018	179,119
Other	4,443	1,302	23,581	25,421	39,485	34,953
	<u>358,948</u>	<u>348,100</u>	<u>150,124</u>	<u>148,687</u>	<u>1,936,543</u>	<u>1,557,416</u>
Increase (decrease) in fund balance .	800,929	90,267	80,089	90,993	(7,349)	231,742
Gain on sale of securities	166,494	17,107	85,375	1,173	(1,187)	—
Net increase (decrease) in fund balances	967,423	107,374	165,464	92,166	(8,536)	231,742
Unrealized loss on investments	—	—	—	—	(1,890)	—
Fund balances, beginning of year	696,190	588,816	1,094,515	1,002,349	313,895	82,153
Fund balances, end of year	<u>\$1,663,613</u>	<u>\$696,190</u>	<u>\$1,259,979</u>	<u>\$1,094,515</u>	<u>\$ 303,469</u>	<u>\$ 313,895</u>

American Institute of CPAs and Related Organization Funds

Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles in the United States. The accounting principles used also conform, in all material respects, with the International Accounting Standards adopted by the International Accounting Standards Committee (IASC).

A summary of the accounting policies of the American Institute of Certified Public Accountants (Institute) and, if applicable, the American Institute of Certified Public Accountants Foundation (Foundation), the AICPA Benevolent Fund (Benevolent Fund) and the Accounting Research Association (ARA) follows:

- Assets, liabilities, revenue and expenses are recognized on the accrual basis.
- Marketable securities are stated at the lower of aggregate cost or market. If market value has declined below cost, the resulting valuation allowance is shown as a reduction of the fund balance. Gains and losses on the sale of securities are included in operating results.
- In 1984 the marketable securities of the Institute, Foundation, Benevolent Fund, ARA and the Division for CPA Firms were consolidated into three investment pools. The funds of these organizations are each assigned units of participation in such pools. The underlying investments consist primarily of short-term bonds.
- Inventories are stated at the lower of cost or market. During the fiscal year ended July 31, 1984, the Institute adopted a monthly moving average method of determining inventory cost. This replaced the first-in, first-out method used in prior years. The change did not have a material effect on the excess of revenue over expenses for the fiscal year.
- Authorship costs applicable to publications and continuing professional education courses the Institute expects will be sold in the future are amortized over the lesser of a three-year period or the useful life of the course. All other editorial costs are expensed as incurred.
- Furniture, equipment and leasehold improvements are stated at cost, less accumulated depreciation or amortization computed on the straight-line method. Furniture and equipment are depreciated over their estimated useful lives of five to ten years. Leasehold improvements are amortized over the shorter of their useful lives or the remainder of the lease period.
- The Institute records dues as revenue in the applicable membership period. Dues of ARA members are assessed on a calendar year basis and recorded as additions to the fund balance in equal monthly amounts during each calendar year.
- Subscription and advertising revenue are recorded as publications are issued.
- Contributions to specific funds are recorded as additions to fund balances in the applicable period.
- Notes and mortgages received by the Benevolent Fund in connection with assistance payments to members and their families are recorded as assets, net of amounts deemed uncollectible.

■ The Institute has a retirement plan covering all eligible employees. Although the Institute may terminate the plan at any time, the policy of the Institute is to fund accrued pension cost. Prior service costs for active employees under the plan are funded over a 30-year period. The costs related to retired persons are funded over a 10-year period.

Notes to Financial Statements July 31, 1984 and 1983

1. Inventories

Inventories of the Institute at July 31, 1984 and 1983 consisted of:

	1984	1983
Paper and material stock	\$ 418,898	\$ 494,925
Publications in process	683,319	653,561
Printed publications and course material	2,575,113	1,187,142
	<u>\$3,677,330</u>	<u>\$2,335,628</u>

2. Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements of the Institute at July 31, 1984 and 1983 were:

	1984	1983
Furniture and equipment	\$4,705,086	\$3,873,819
Leasehold improvements	3,670,994	3,550,365
	8,376,080	7,424,184
Less accumulated depreciation and amortization	3,926,557	3,230,723
	<u>\$4,449,523</u>	<u>\$4,193,461</u>

Depreciation and amortization of leasehold improvements for the years ended July 31, 1984 and 1983 were \$706,368 and \$637,309.

3. Taxes

The Institute is a professional organization that qualifies under Section 501(c)(6) of the Internal Revenue Code. The Institute is subject to tax on unrelated business income arising from the sale of advertising in the *Journal of Accountancy* and the *Tax Adviser*.

4. Lease Commitments

Rental commitments under noncancellable operating leases in effect as of July 31, 1984 were \$31,161,000. This amount excludes future escalation charges for real estate taxes and building operating expenses. The principal lease (which has a 20-year base period) started in 1974 and can be terminated at the end of 15 years if the Institute pays certain penalties. Minimum rental commitments are:

Year Ended July 31,

1985	3,500,000
1986	3,540,000
1987	3,359,000
1988	2,944,000
1989	2,857,000
Years subsequent to 1990	14,961,000
	<u>\$31,161,000</u>

Rental expense for the years ended July 31, 1984 and 1983 were \$4,789,000 and \$4,270,000.

5. Retirement Plan

Pension expenses related to the Institute's retirement plan were approximately \$987,000 and \$871,000 for the years ended July 31, 1984 and 1983.

The accumulated plan benefits and plan net assets available as of the most recent valuation dates were:

	May 1,	
	1984	1983
Actuarial present value of accumulated plan benefits:		
Vested	\$ 6,833,988	\$ 7,069,351
Non-vested	1,395,201	1,430,129
	<u>\$ 8,229,189</u>	<u>\$ 8,499,480</u>
Net assets available for benefits	<u>\$11,709,390</u>	<u>\$10,643,467</u>

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6 percent compounded annually for both 1983 and 1984.

6. 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 for assistance programs to strengthen the accounting faculty of minority universities.

7. Commitment to Financial Accounting Foundation (FAF)

The Institute makes an annual contribution of \$2.00 per member to the FAF to support the work of the Financial Accounting Standards Board (FASB). The Accounting Research Association, Inc. (ARA) also makes a best efforts commitment to raise funds for the FASB from sources within the accounting profession, which commitment amounted to \$1,800,000 for the year 1984.

The Governmental Accounting Standards Board (GASB) began operations in the first half of 1984. The Institute contributed \$100,000 to the FAF to support the work of the GASB. The ARA also makes a best efforts commitment to raise additional funds for support of the GASB. The combined contributions of the Institute and the ARA to the GASB are expected to be \$400,000 in 1984 and in 1985.

It is anticipated the Institute and the ARA will continue to support both the FASB and GASB by contributing to the FAF.

8. Special Purpose and Related Organization Funds

The purposes of the special and related organization funds are:

Endowment Fund: To maintain a reference library for members of the Institute. Investment income from marketable securities of the Endowment Fund is included as revenue of the General Fund in accordance with provisions of the endowment. As part of an effort to consolidate investment funds, the Endowment Fund was transferred to the Foundation and consolidated with the Library Fund during fiscal 1983-84.

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

Benevolent Fund: To raise money to provide financial assistance to needy members of the Institute and their families.

Accounting Research Association: To provide a best efforts commitment to the financing of the Financial Accounting Foundation.

9. Division for CPA Firms

The AICPA acts as custodian of the cash and marketable securities of the Division for CPA Firms. The amounts involved are shown on the accompanying balance sheets as offsetting assets and liabilities.

The balances at July 31, 1984 were:

	Marketable		Total
	Cash	Securities	
Private Companies			
Practice Section ...	\$ 9,791	\$ 466,944	\$ 476,735
SEC Practice Section .	19,360	1,119,586	1,138,946
	<u>\$ 29,151</u>	<u>\$1,586,530</u>	<u>\$1,615,681</u>

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

	July 31, 1984	
	Private Companies Practice Section	SEC Practice Section
Balance Sheet		
Assets:		
Cash	\$ 9,791	\$ 19,360
Marketable Securities (quoted market \$1,586,531) ..	466,944	1,119,586
Dues and other receivables	20,044	66,543
Prepaid expenses	—	23,333
	<u>\$496,779</u>	<u>\$1,228,822</u>
Liabilities and Fund Balances:		
Accounts payable	\$ 17,219	\$ 148,146
Unearned advance dues	39,035	389,562
Fund balances	440,525	691,114
	<u>\$496,779</u>	<u>\$1,228,822</u>

Statement of Changes in Fund Balances

	Year Ended July 31, 1984	
Additions:		
Dues	\$ 85,842	\$864,472
Other	68,467	119,800
	<u>154,309</u>	<u>984,272</u>
Deductions:		
Expenses of Public Oversight Board:		
Salaries and fees	—	590,518
Administrative expenses ...	—	280,354
	<u>—</u>	<u>870,872</u>
Membership directory	19,858	17,168
Legal fees	—	25,666
Administrative and other expenses	63,355	19,922
	<u>83,213</u>	<u>933,628</u>
Net increase in funds	71,096	50,644
Fund balances, beginning of year	369,429	640,470
Fund balances, end of year	<u>\$440,525</u>	<u>\$ 691,114</u>

In addition to the expenses above, the Institute incurred expenses during the years ended July 31, 1984 and 1983 in support of the Division for CPA Firms and in connection with related quality control programs. These expenses are included in the accompanying Summary of Expenses by Activity.

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 1983-84 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 the effect of general inflation, the five-year presentation more clearly portrays the trends in revenue, expenses and general fund balances.

The inflation-adjusted data indicates that the Institute's revenue and expenses 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 at

a compound rate of 14.0% per year and expenses at a 13.7% rate. When adjusted for the effects of inflation, these rates of increase are 5.5% and 5.2% respectively. For the year ended July 31, 1984, revenue exceeded expenses on a historical and constant dollar basis by \$3,789,000 and \$3,470,000 respectively.

General inflation also causes a loss of purchasing power from holding monetary assets (the excess of cash, deposits, commercial paper, notes and receivables over current payables). The Institute's investments, during the period from fiscal 1980 to 1984, generated enough income to more than offset the loss in purchasing power on all net monetary assets during the same period. Basically, earnings on investments exceeded the rate of inflation.

During the five years ended July 31, 1984, the Institute reported depreciation expense of \$2,860,000 on a historical cost basis. On a constant dollar basis, depreciation was \$4,498,000 during this period. The constant dollar cost of furniture, equipment and leasehold improvements as of July 31, 1984 net of accumulated depreciation and amortization, was \$4,943,000 compared to a historical cost value of \$4,449,523.

Supplementary Information 1980-1984 (Thousands of Dollars)

Historical Cost Financial Data as Reported in the Financial Statements	Year Ended July 31,				
	1984	1983	1982	1981	1980
Revenue:					
Membership dues	\$17,841	\$16,643	\$12,424	\$11,515	\$10,674
CPA examination fees	5,074	5,237	4,857	3,748	3,569
Publications	15,262	13,622	12,569	10,896	10,473
Continuing professional education	16,950	16,395	14,757	12,215	9,897
Other, net	4,506	3,420	2,435	2,362	1,833
	<u>\$59,633</u>	<u>\$55,317</u>	<u>\$47,042</u>	<u>\$40,736</u>	<u>\$36,446</u>
Percent increase over prior year	7.8%	17.6%	15.5%	11.8%	17.7%
Expenses:					
Salaries and fees	\$18,302	\$17,450	\$16,082	\$13,961	\$12,256
Personnel costs	3,179	2,867	2,844	2,381	2,171
Occupancy	5,426	5,026	5,379	4,533	3,696
Printing and paper	9,691	8,423	9,777	8,676	7,867
General	19,246	16,687	13,088	11,364	9,245
	<u>\$55,844</u>	<u>\$50,453</u>	<u>\$47,170</u>	<u>\$40,915</u>	<u>\$35,235</u>
Percent increase over prior year	10.7%	7.0%	15.3%	16.1%	19.9%
Excess (deficiency) of revenue over expenses	\$ 3,789	\$ 4,864	\$ (128)	\$ (179)	\$ 1,211
General Fund balance at end of year	<u>\$18,822</u>	<u>\$15,033</u>	<u>\$10,169</u>	<u>\$10,297</u>	<u>\$10,476</u>
Percent increase (decrease) over prior year	25.2%	47.8%	(1.2%)	(1.7%)	8.7%

Historical Cost Financial Data Adjusted for General Inflation (in Average 1983-84 Dollars)	Year Ended July 31,				
	1984	1983	1982	1981	1980
Revenue:					
Membership dues	\$17,841	\$17,290	\$13,411	\$13,456	\$13,888
CPA examination fees	5,074	5,441	5,243	4,380	4,644
Publications	15,262	14,152	13,568	12,733	13,627
Continuing professional education	16,950	17,032	15,929	14,274	12,877
Other, net	4,505	3,553	2,628	2,760	2,385
	<u>\$59,632</u>	<u>\$57,468</u>	<u>\$50,779</u>	<u>\$47,603</u>	<u>\$47,421</u>
Percent increase over prior year	3.8%	13.2%	6.7%	0.4%	3.7%
Expenses:					
Salaries and fees	\$18,302	\$18,127	\$17,360	\$16,314	\$15,947
Personnel costs	3,179	2,978	3,070	2,782	2,825
Occupancy	5,744	5,516	6,113	5,514	5,043
Printing and paper	9,692	8,750	10,554	10,139	10,236
General	19,245	17,336	14,128	13,280	12,029
	<u>\$56,162</u>	<u>\$52,707</u>	<u>\$51,225</u>	<u>\$48,029</u>	<u>\$46,080</u>
Percent increase over prior year	6.6%	2.9%	6.7%	4.2%	5.7%
Excess (deficiency) of revenue over expenses	\$ 3,470	\$ 4,761	\$ (446)	\$ (426)	\$ 1,341
Loss of purchasing power on net monetary assets	\$ 674	\$ 327	\$ 618	\$ 1,103	\$ 1,576
General Fund balance at end of year	<u>\$18,474</u>	<u>\$15,678</u>	<u>\$11,244</u>	<u>\$12,308</u>	<u>\$13,837</u>
Percent increase (decrease) over prior year	17.8%	39.4%	(8.6%)	(11.1%)	(1.7%)
Average Consumer Price Index for fiscal year	<u>305.9</u>	<u>294.5</u>	<u>283.4</u>	<u>261.8</u>	<u>231.1</u>
Percent increase over prior year	3.9%	3.9%	8.3%	11.4%	13.5%