1985

AICPA annual report 1984-85; Message to members

American Institute of Certified Public Accountants

annual report 1984-85

MESSAGE TO MEMBERS

Major developments affected the Institute and its members this year. Public concern and Congressional studies brought the accounting profession more into the limelight. Extensive proposals to change the tax law provided an opportunity for members to mobilize and to participate in the legislative process. Accountant's liability and availability of insurance coverage have emerged as a major concern of the membership. The need to reconsider the organization's mission and approach to achieving compliance with standards of professional conduct has become more apparent. To address these and other developments, the Institute and its members have taken a number of important initiatives.

Congress, the media, and others are concerned about the quality of audits. Congressional hearings centered on the effectiveness of self-regulation, auditing and accounting standards setting, and auditor independence. The Institute, as one of the first participants in these hearings, provided testimony (mailed to all members) that expressed a clear commitment to implement "sound solutions to real problems" the hearings might identify.

We believe the actions and initiatives taken by the profession this year to improve audit quality evidence our commitment to meet the needs of the public and to discharge our responsibilities with integrity and objectivity. Ahead we may find that even more is expected of us by the public we serve. We must be ready to consider how the profession can reasonably meet any legitimate public expectations identified.

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

AICPA

PUBLIC EXPECTATIONS AND AUDITOR'S RESPONSIBILITY

Auditors perform their societal role with due professional care and with concern for the public interest. However, a gap apparently exists between what some expect from the audit function and the responsibility auditors have reasonably assumed. This expectation gap largely relates to the auditor's responsibility for detecting errors and irregularities, for reporting illegal acts, and for providing the public with an "early warning" when a company is in financial difficulty.

Recognizing the need to revisit important auditing standards and to consider their continued applicability in the light of public expectations, the Auditing Standards Board is reconsidering the guidance currently provided in these areas. A number of key issues are under study including auditor responsibility for discovering fraud, auditor responsibility for reporting illegal acts to others, "cooked books" and intentional distortions of financial statements and how auditing standards communicate the auditor's broad responsibility.

In considering the broad issue of the public's desire for "early warning" from independent auditors, the Institute has concluded that management and auditors may need additional accounting guidance on disclosure of uncertainties involving risk and the concentration of business. Accordingly, the Accounting Standards Executive Committee will appoint a task force to evaluate the adequacy of current FASB standards in that area. The task force is expected to produce an issues paper for the FASB's consideration.

Meanwhile, the Auditing Standards Board has approved issuing an exposure draft that provides the following: illustrative procedural suggestions regarding the auditing of contingencies and uncertainties; guidance on how to evaluate footnote disclosure in this difficult area; and sharper criteria than in present literature about when the auditor should qualify an opinion as subject to uncertainty. The exposure draft is expected to be available for public comment by early fall.

Failures by banks and savings and loan associations have raised questions about the adequacy of loan loss reserves. To address these questions, additional guidance on auditing loan loss reserves is being developed by the Institute's banking committee with the aid of a full-time consultant.

All of these activities are important. While they are in progress, the Institute is continuing to study the "expectation gap" with a view toward identifying other appropriate initiatives.

PREVENTION AND DETECTION OF FRAUD

Increasing allegations of fraud have raised questions about the system of corporate accountability and the effectiveness of independent audits. We all recognize that public confidence in the financial reporting system is of paramount importance. Those who deliberately issue misleading financial statements obtain capital unfairly at the expense of honest competitors for capital. Accordingly, on behalf of the membership the Institute has spearheaded the appointment of an independent National Commission to identify ways to detect and prevent improprieties by all those involved in the financial reporting process.

The Commission, announced in June, has six members: Chairman James C. Treadway, Jr., former SEC Commissioner and partner in the law firm of Baker & Botts; William M. Batten, immediate past Chairman of the New York Stock Exchange; William S. Kanaga, immediate past Chairman of Arthur Young & Company; Hugh L. Marsh, General Manager of Internal Audit, Aluminum Company of America; Thomas I. Storrs, immediate past Chairman of NCNB (North Carolina National Bank) Corporation; and Donald H. Trautlein, Chairman and Chief Executive Officer of Bethlehem Steel Corporation.

The Institute formed this Commission in cooperation with other organizations including the American Accounting Association, the Financial Executives Institute, and the Institute of Internal Auditors. G. Dewey Arnold, CPA, is heading a

Washington-based staff to coordinate the Commission's work, which is expected to span approximately 18 months.

GOVERNMENT SECURITIES DEALERS

In response to concerns about the failures of government securities dealers, within a four month period a study was completed and more than 40,000 copies of a comprehensive report issued by a special task force on audits of repurchase security transactions. The report provides understandable descriptions of complex repurchase transactions, explains the risk inherent in such transactions,and discusses how the auditor can assess these risks. The Auditing Standards Board and the Financial Accounting Standards Board are carefully studying the report's recommendations.

Because related party transactions were significant to several failures involving government securities dealers, a soon to be issued interpretation of generally accepted auditing standards will emphasize the need for the auditor to understand the business purpose and economics of these transactions from the perspective of all the parties involved.

"SHOPPING" FOR ACCOUNTING PRINCIPLES

Wide concern is being expressed about the increased frequency of companies choosing to consult with other auditing firms when dissatisfied with positions taken by their auditors on accounting or disclosure matters. Generally accepted accounting principles provide the framework for responding to such requests, and existing ethical standards also deal with the matter. However, in view of the potential for adversely affecting the quality of financial reporting, consideration is being given to providing additional guidance in these situations. Because we must be concerned about possible public perception that professional standards may be compromised, we urge all members to apply their best professional judgment when these matters arise.

DIVISION FOR CPA FIRMS

The Division for CPA Firms continues its emphasis on quality performance by its members through a variety of membership requirements. Because the program is not well understood, the Division undertook an ambitious public information effort that stresses the importance of membership in the Division and the usefulness of peer review. The multimedia program incorporates newspaper advertising, news releases, and editorial briefings for major newspapers and magazines. Media training programs helped to prepare members for their roles as newsmakers.

Administratively, the two Sections continued their efforts to improve the procedures for peer review while reducing paperwork and costs, and to increase uniformity in the process.

The Private Companies Practice Section introduced several new services to attract new members. These included a toll-free consultation service, a confidential consulting review program, a report review for firms that do not perform audits, and a comprehensive member information manual.

The SEC Practice Section expanded its requirements for concurring partner review and audit partner rotation; both steps were aimed at enhancing the reliability of audits. The Section has consistently required that litigation involving SEC registrants be reported and that requirement has now been extended to publicly held financial institutions. In response to concerns about opinion shopping and professionalism, firms will be required to adopt quality control policies and procedures covering opinions on accounting principles which will be subject to peer review.

TAX DEVELOPMENTS

Through its network of committees and task forces, the Federal Taxation Division commented at every stage as the current tax reform proposals moved through the legislative process. It submitted to the Congress, Treasury and other interested parties a comprehensive analysis of the provisions of the administration's proposal that has come to be known as "Treasury II." And in our testimony before the House Ways and Means Committee and other submissions, the Institute expressed strong opposition to the proposal to require businesses to use the accrual method for tax reporting in specified situations. This requirement would apply if more than $5 million in annual gross receipts is reported or if some method other than cash is regularly used for financial reporting purposes–a proposal that would dramatically affect smaller businesses and CPA firms. We thank the many Institute members who are writing to their Congressional representatives to point out the unfairness and needless complexity of this proposal. We are hopeful that this operation of our "key person program" will prove effective.

Difficulties in communication between the IRS and taxpayers and their tax advisers also continue as a major problem. The Institute sought relief, bringing the problems to the attention of the IRS and Treasury Department at frequent meetings and offering recommendations for improvement.

Expression of our views on tax matters is strengthened by the existence of the voluntary Tax Division, formed last year for members with a strong interest in taxation. The Division, whose membership now stands at 16,500, offers various services and provides an opportunity for CPAs to share experiences and ideas on tax matters.

PROFESSIONAL LIABILITY

The insurance industry in 1984 suffered the heaviest underwriting losses in eighty years. Product liability and negligence recoveries are too often based on a social theory that every loss must be recovered. This has resulted in severe cost increases and constrictions in availability for all types of casualty coverage. The professions have been particularly hard hit and accountants have shared the problem with doctors, lawyers, architects and others.

Despite the depressed state of the casualty insurance industry, the AICPA's professional liability plan continues to grow; nearly 15,000 local and regional firms benefit from its protection. However, substantial rate increases were necessary to preserve the plan's stability and ensure its continuance. The professional liability insurance committee is studying past results in the hope of predicting and isolating potential losses. In addition, we have begun a long-term study of accountants' legal liability to determine what might be done to bring members' liability exposure into line with the responsibilities reasonably assumed by CPAs.

One of our primary legislative efforts in Washington has been directed at seeking changes in the civil provisions of the Racketeer Influenced and Corrupt Organizations Act (RICO). RICO, enacted more than a decade ago as a legislative weapon to combat organized crime, has come to be used against ordinary businesses in ways Congress never intended. Many parties that sue legitimate businesses, individual CPAs, or accounting firms use RICO's civil provisions as the basis for seeking treble damages plus reimbursement of legal costs. To correct such abuses of civil RICO, the Institute was instrumental in seeking the introduction of legislation to require that, before RICO provisions could be used in a civil suit, a related criminal conviction must have occurred. In this way, we can guarantee that civil RICO's targets will be those convicted persons Congress had in mind all along. We supported this effort through our testimony before the House and Senate Judiciary Committees and in white papers prepared for distribution to involved groups. We also obtained the aid of other involved organizations to ensure that our collective voices are heard.

SOURCES AND OCCUPATIONS OF AICPA MEMBERSHIP	1975	1977	1979	1981	1983	1985
Total AICPA Membership	112,494	131,300	149,314	173,900	201,764	231,333
Public Accounting	59.1%	57.5%	55.0%	53.3%	53.0%	51.0%
Business & Industry	30.3%	32.0%	34.2%	36.1%	36.9%	38.8%
Education	2.9%	2.8%	3.0%	2.8%	2.7%	2.7%
Government	3.4%	3.5%	3.4%	3.3%	3.3%	3.3%
Retired & Miscellaneous	4.3%	4.2%	4.4%	4.3%	4.1%	4.2%
Membership in Public Practice	66,506	75,528	82,141	93,082	106,870	117,850
Firms with one member	22.1%	22.1%	23.5%	21.8%	22.6%	23.9%
Firms with 2 to 9 members	29.7%	30.1%	32.3%	34.5%	34.0%	33.7%
Firms with 10 or more members, except the	10.1%	12.0%	12.6%	14.2%	15.0%	15.1%
25 largest firms	38.1%	35.8%	31.6%	29.5%	28.4%	27.3%

PERSONAL FINANCIAL PLANNING

To support the wave of member interest in personal financial planning, the Institute this year organized a Personal Financial Planning Committee to help practitioners provide high-quality services in that very competitive market. The Committee will make available practical service aids such as guidance on government regulations and reporting on financial statements. Booklets will explain the financial planning services CPAs provide.

FEDERAL TRADE COMMISSION

The Federal Trade Commission continues a wide-ranging study of how antitrust laws apply to professional organizations. The Commission has asked the AICPA for documents relating to the Code of Professional Ethics to evaluate whether the Rules of Conduct or their interpretations violate the FTC Act.

Selected documents are being provided under arrangements that will preserve the confidentiality of ethics proceedings. We have no indication what direction this nonpublic review is likely to take.

MISSION

A significant study of the Institute's mission began last year. In looking at the objectives of our 231,500-member organization, the committee is considering whether the traditional focus on the public practitioner is still appropriate at a time when the portion of industry CPA members nears 50 percent. A preliminary report was presented to Council in May, and the suggestions offered are being incorporated into revised recommendations. The draft emphasizes the CPAs' concern for the public interest as an important aspect of the AICPA's mission.

SPECIAL COMMITTEE ON STANDARDS OF PROFESSIONAL CONDUCT

Improving the quality of practice is a concern of the entire profession. Accordingly, the AICPA Special Committee on Standards of Professional Conduct submitted an interim report to AICPA Council in the spring on a program to strengthen professional standards and increase member adherence to them. A key recommendation calls for replacing the existing ethics code with a goal-oriented, positively stated code that would apply to all AICPA members. The interim report also recommends a mandatory quality-assurance program for CPAs in public practice, performed with the cooperation of state societies and state boards of accountancy. The Committee is working out final details of its proposal for submission to Council and, ultimately, to the entire membership.

EXTERNAL RELATIONS

The groundwork was laid this year to give a greater dimension to the Institute's public relations activities. Heavier emphasis is being placed on building a positive public impression of CPAs, positioning the Institute as the authoritative voice of the profession, and supporting practitioners as providers of high quality services.

The Institute accelerated media relations, introduced a hometown press release program to publicize individual CPA activities, and arranged news conferences. We also produced a television documentary on the first four days of Congressional hearings. Special events called the attention of the White House to our public service record and resulted in CPAs participating in regional radio and television talk shows.

AICPA members are involved in one of the most comprehensive efforts in history to reach out to the nation's small business community. Two CPAs have been named to the National Steering Committee for the White House Conference on Small Business, to be held in August 1986. In addition, members of the AICPA and state CPA societies are serving as moderators, issue experts, and secretariats at regional meetings sponsored by the White House Conference. State CPA societies and other groups have been provided with guidance on publicizing the accounting profession's participation in this program.

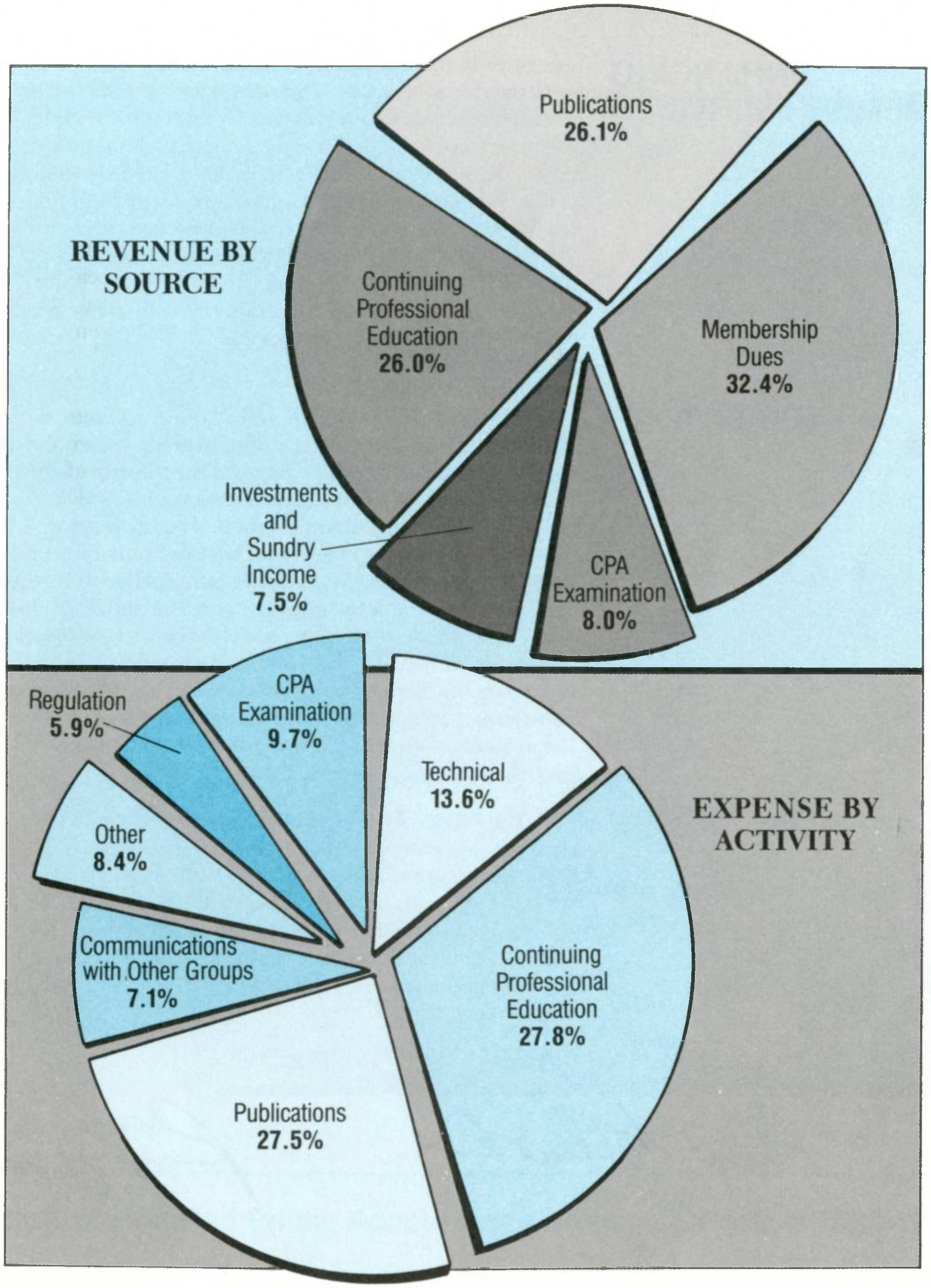
The Institute received a "C-Flag" award from the White House Office of Private Sector Initiatives for demonstrating its commitment to community involvement and public service. Two Institute programs were registered with the White House: the annual Public Service Award Program and the Financial Management Seminar for Nonprofit Organizations.

OPERATIONS

Revenue increased by $2.4 million to $62.1 million whereas expenses were up by $7.3 million to $63.2 million resulting in expenses exceeding revenue by $1.1 million. The Institute nevertheless continues to be in a strong financial position, the fund balance of $17.7 million having increased by about $7.5 million over the last three years. We expect to return to an excess of revenue over expenses in the fiscal year ending July 31, 1986.

A combination of two main factors led to the lower than anticipated results in the current year: a loss in CPE operations of $1.3 million and substantially higher than expected costs of professional services. The latter resulted from greater than budgeted legal fees attributable to the Congressional hearings, the FTC investigation, legislative activities and the special study on professional liability exposure.

Revenue from CPE operations unexpectedly declined by 5% as compared with the prior year, primarily because of increased competition from a variety of suppliers–which reduced CPE market share. While steps are being taken to increase market share and otherwise respond to changing market conditions, it is unlikely that CPE will return to breakeven until fiscal 1987. CPE had produced net revenue of $1.3 million over the two preceding years.



ENHANCING MEMBER SERVICES

Recommendations of outside consultants for a realignment of staff activities to enhance member services were substantially completed during the year. The number of staff officers reporting directly to the President was reduced through the creation of two senior posts. Thomas P. Kelley, formerly Vice President-Technical, was appointed to the position of Group Vice President–Professional with overall responsibility for technical and self-regulatory activities. An experienced operating

ENHANCING MEMBER SERVICES
(continued)

executive in the association field, Kenneth J. Kerin, was recruited late in the year as Group Vice President–Operations with overall responsibility for business and member-service related activities, including CPE and publications. Recognizing member concern for enhancing the image of the profession, a new vice presidential post was created and a highly regarded communications and publications professional, William J. Corbett, was engaged to give new emphasis to this area. Also continuing to report directly to the President are two experienced staff members: Theodore C. Barreaux, Vice President responsible for Washington Activities, and Donald J. Schneeman, General Counsel and Secretary. While other changes are yet to be made to give greater emphasis to member services and strategic planning, we believe these changes better position the staff organization to serve the needs of the membership.

DIRECTORS

We would like to take this opportunity to thank all the members of the Board of Directors who serve the Institute with hard work and dedication. We particularly want to recognize the contribution of the three public members: Barbara Hackman Franklin, whose activities include government service, education and corporate board memberships; Alan Levenson, a highly respected Washington attorney; and Thomas Pryor, whose investment advisory activities bring to us a perspective of those who use CPA services. Their participation in Institute activities serves as a constant reminder of the importance of the public interest to the work of CPAs. Tom Pryor will be completing a seven-year period of service on the Board this year. His efforts on behalf of the profession extend well beyond that period and include service on the Wheat Commission, which recommended the creation of the FASB more than a decade ago. Tom, who will be greatly missed, will be replaced by Ralph Saul, former president of the American Stock Exchange and a former chief executive officer.

THE FUTURE

The events of the past year serve to confirm that we live and work in a rapidly changing environment filled with new challenges and opportunities for the future. Optimism, innovation and quality in all our services, and willingness to be full participants in the free enterprise system should be the key to our continuing success.

We are a proud profession and stand today with a great reservoir of high public regard. Let us build an even better profession on that solid foundation, taking care to preserve the qualities of competence, integrity and objectivity for which we are so well recognized.

Philip B. Chenok   Ray J. Groves

Philip B. Chenok, *President* — Ray J. Groves, *Chairman*

American Institute of Certified Public Accountants Board of Directors 1984-1985

Responsibility for Financial Statements

The management of the Institute is responsible for the preparation of the financial statements and all other information 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 non-management 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 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.

Ray J. Groves
Chairman of the Board

KMG Main Hurdman

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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, 1985 and 1984, 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, 1985 and 1984 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, 1985 and 1984, 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 which, except for the change, with which we concur, in the actuarial method of computing pension expense as described in Note 6 to the financial statements, have been applied on a consistent basis.

KMG Main Hurdman

September 4, 1985

Financial Statements

American Institute of Certified Public Accountants

Balance Sheet

	July 31, 1985	July 31, 1984
Assets:		
Cash	$ 1,134,059	$ 732,298
Marketable securities (quoted market: 1985, $21,846,956; 1984, $20,480,366) (Note 1)	20,729,437	20,311,779
Accounts receivable (less allowance for doubtful collections: 1985, $50,000; 1984, $50,000)	4,897,056	6,314,917
Inventories (Note 2)	4,223,349	3,677,330
Deferred authorship costs and prepaid expenses	1,903,677	2,320,085
Furniture, equipment and leasehold improvements (Note 3)	4,766,111	4,449,523
	37,653,689	37,805,932
Funds held for Division for CPA Firms (Note 10)	1,799,486	1,615,681
	$39,453,175	$39,421,613

	1985	1984
Liabilities and Fund Balances:		
Liabilities and deferred revenue:		
Accounts payable and other liabilities	$ 7,307,955	$ 6,792,369
Accrued taxes (Note 4)	918,265	755,000
Advance dues	7,164,691	5,044,816
Unearned revenue from subscriptions and other sources	4,568,955	6,391,384
	19,959,866	18,983,569
Funds held for Division for CPA Firms (Note 10)	1,799,486	1,615,681
General fund balances	17,693,823	18,822,363
	$39,453,175	$39,421,613

Statement of Revenue and Expenses

	Year Ended July 31	
	1985	1984*
Revenue:		
Dues	$20,129,172	$17,841,176
Publications	16,208,179	15,262,288
Continuing professional education	16,150,704	16,950,401
CPA examinations	4,995,041	5,073,565
Investment and sundry income	3,251,803	3,115,008
Conferences	1,323,265	1,390,262
	62,058,164	59,632,700
Expenses (see also summary of expenses by activity):		
Cost of sales	13,990,827	11,752,073
Salaries	17,313,379	16,292,448
Personnel costs	3,332,230	3,079,673
Occupancy	5,083,630	4,852,643
Meetings and travel	4,513,264	3,930,451
Postage and shipping	4,378,963	3,850,385
Printing and paper	3,836,657	3,326,822
Professional services	2,729,543	1,552,900
Promotions and advertising	1,608,453	1,805,768
Contributions	1,115,945	926,715
Equipment rental and maintenance	976,338	740,545
Income taxes	869,800	732,318
Telephone	831,579	811,373
Fees	355,833	382,811
General and administrative	2,250,263	1,807,185
	63,186,704	55,844,110
Excess (deficiency) of revenue over expenses	**$ (1,128,540)**	**$ 3,788,590**

Summary of Expenses by Activity

	Year Ended July 31	
	1985	1984
Summary of expenses by activity:		
CPA examinations	$ 6,129,341	$ 5,702,384
Publications:		
Cost of sales	13,341,484	11,560,124
Distributed to members and others	4,163,511	3,440,438
Continuing professional education	17,480,419	16,781,194
Conferences	1,170,454	984,339
Technical:		
Accounting and review services	78,397	74,349
Accounting standards	967,783	780,301
Auditing standards	1,837,423	1,653,782
Federal taxation	1,232,438	767,267
Management advisory services	469,250	387,826
Computer services	62,365	5,467
International practice	378,813	316,184
Technical assistance to members	732,901	685,395
Library	1,290,451	1,138,414
NAARS program	431,369	487,573
Financial Accounting Foundation contribution	560,000	499,034
Accountants' legal liability	396,459	118,464
Fraud commission	103,809	—
Regulation:		
Ethics and trial board	1,350,603	1,168,189
State legislation	427,154	432,853
Division for CPA firms	954,323	814,815
Quality control programs	982,698	930,147
Organization and membership:		
Board, council and annual meetings	1,000,831	982,929
Nominations and committee appointments	144,927	152,045
Communications with members	449,268	395,145
Membership admissions and records	1,352,892	1,099,929
Membership benefit plans	123,861	74,286
Special organizational studies	489,249	476,739
Communications with other groups:		
Public relations	1,085,376	759,426
State societies	265,626	259,215
Universities	574,474	493,732
Federal government	2,546,877	1,851,190
Assistance programs for minority students and businesses	611,878	570,935
Total	$63,186,704	$55,844,110

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	
	1985	1984
General Fund:		
Fund balances, beginning of year	$18,822,363	$15,033,773
Excess (deficiency) of revenue over expenses	(1,128,540)	3,788,590
Fund balances, end of year	17,693,823	18,822,363
Endowment and other restricted funds:		
Fund balances, beginning of year	—	648,384
Funds transferred to the AICPA Foundation (Note 9)	—	(648,384)
Fund balances, end of year	—	—
	$17,693,823	$18,822,363

American Institute of Certified Public Accountants

Statement of Changes in Financial Position

	Year Ended July 31	
	1985	1984
Sources of funds:		
Excess (deficiency) of revenue over expenses	$ (1,128,540)	$ 3,788,590
Depreciation and amortization	2,241,886	1,980,180
Total from operations	1,113,346	5,768,770
Billings for subscriptions and advertising in excess of amounts earned	—	2,765,336
Collections on dues in advance of period to which they relate, net	2,119,875	—
Other, net	2,096,712	515,734
	5,329,933	9,049,840
Uses of funds:		
Dues earned in excess of amounts billed	—	2,262,825
Payment of authorship and other costs that will be expensed in the future	999,453	1,842,551
Investment in inventory	546,019	1,341,702
Amount of subscriptions and advertising earned in excess of amounts billed	1,822,429	—
Purchase of furniture, equipment, and leasehold improvements	1,142,613	951,897
	4,510,514	6,398,975
Net increase in funds balances	819,419	2,650,865
Cash and marketable securities, beginning of year	21,044,077	18,393,212
Cash and marketable securities, end of year	$21,863,496	$21,044,077

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

	American Institute of Certified Public Accountants Foundation		AICPA Benevolent Fund, Inc.		Accounting Research Association, Inc.	
	1985	1984	1985	1984	1985	1984

Balance Sheet—July 31,

	1985	1984	1985	1984	1985	1984
Assets:						
Cash	$ 12,322	$ 27,793	$ 32,087	$ 40,261	$ 363,193	$ 30,574
Marketable securities, at lower of cost or market*	2,027,987	1,864,648	1,362,841	1,110,818	687,009	665,258
Notes and mortgages receivable (net of allowance for doubtful collections 1985, $62,119; 1984, $49,519)	—	—	140,228	90,640	—	—
Dues receivable	—	—	—	—	369,550	391,050
Other receivables	22,854	35,137	3,257	19,082	2,747	18,559
Prepaid expenses	—	—	—	—	75,325	93,976
	$2,063,163	$1,927,578	$1,538,413	$1,260,801	$1,497,824	$1,199,417
Liabilities and Fund Balances:						
Liabilities and deferred revenue:						
Accounts payable	$ 21,820	$ 79,215	$ 436	$ 822	$ 97,885	$ 97,261
Unearned advanced dues	—	—	—	—	782,853	798,687
Scholarships payable	247,250	184,750	—	—	—	—
	269,070	263,965	436	822	880,738	895,948
Fund balances:						
General	22,344	109,988	1,537,977	1,259,979	617,086	305,359
Library	874,425	861,628	—	—	—	—
John L. Carey Scholarship Fund	266,125	194,863	—	—	—	—
Accounting Education Fund for Disadvantaged Students	618,098	496,127	—	—	—	—
E.W. Sells Award Fund	13,101	1,007	—	—	—	—
Unrealized loss on investments	—	—	—	—	—	(1,890)
	1,794,093	1,663,613	1,537,977	1,259,979	617,086	303,469
	$2,063,163	$1,927,578	$1,538,413	$1,260,801	$1,497,824	$1,199,417
***NOTE:**						
Marketable securities at market (m) or cost (c)	$2,103,005(m)	$1,886,762(m)	$1,434,819(m)	$1,113,077(m)	$ 721,172(m)	$ 667,148(c)

Statement of Changes in Fund Balances—Year Ended July 31

	1985	1984	1985	1984	1985	1984
Additions:						
Investment income	$ 170,609	$ 93,503	$ 113,548	$ 84,563	$ 83,693	$ 84,106
Contributions/dues	369,882	417,990	228,176	145,650	2,258,161	1,845,088
Transfer of Endowment Fund and E.W. Sells Award Fund from AICPA (Note 9)	—	648,384	—	—	—	—
	540,491	1,159,877	341,724	230,213	2,341,854	1,929,194
Deductions:						
Contributions/scholarships	493,718	354,505	—	—	1,780,107	1,694,040
Assistance to members and families	—	—	152,665	126,543	—	—
FASB subscription service	—	—	—	—	182,782	203,018
Other	8,386	4,443	15,211	23,581	75,500	39,485
	502,104	358,948	167,876	150,124	2,038,389	1,936,543
Increase (decrease) in fund balance	38,387	800,929	173,848	80,089	303,465	(7,349)
Gain on sale of securities	92,093	166,494	104,150	85,375	8,262	(1,187)
Net increase (decrease) in fund balances	130,480	967,423	277,998	165,464	311,727	(8,536)
Fund balances, beginning of year	1,663,613	696,190	1,259,979	1,094,515	305,359	313,895
Fund balances, end of year	$1,794,093	$1,663,613	$1,537,977	$1,259,979	$ 617,086	$ 305,359

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

American Institute of CPAs and Related Organization Funds

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.

- Inventories are stated at the lower of cost or market. A monthly moving average method is used for determining inventory cost.

- 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 who support the Financial Accounting Standards Board (FASB) are assessed on a calendar year basis and recorded as additions to the fund balance in equal monthly amounts during each calendar year. Contributions collected by the ARA on behalf of the Governmental Accounting Standards Board (GASB) are recognized as revenue when received.

- Subscription and advertising revenue are recorded as publications are issued.

- Contributions to specific funds are recorded as additions to fund balances in the period to which the contributions are intended to apply.

- 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.

- Accounting policies, as they relate to the Institute's pension plan, are described in Note 6 to the financial statements.

Notes to Financial Statements July 31, 1985 and 1984

1.Marketable Securities
Marketable securities, at cost, of the Institute consist of:

	As of July 31 (in thousands) 1985	1984
U.S. Treasury bonds and notes	$ 7,875	$13,336
Corporate demand notes	460	3,156
Bonds, notes and CD's	4,552	2,763
Equities	7,842	1,057
	$20,729	$20,312
Market	$21,847	$20,480

2.Inventories
Inventories of the Institute at July 31, 1985 and 1984 consisted of:

	1985	1984
Paper and material stock	$1,038,986	$ 418,898
Publications in process	451,136	683,319
Printed publications and course material	2,733,227	2,575,113
	$4,223,349	$3,677,330

3.Furniture, Equipment and Leasehold Improvements
Furniture, equipment, and leasehold improvements of the Institute at July 31, 1985 and 1984 were:

	1985	1984
Furniture and equipment	$4,910,745	$4,705,086
Leasehold improvements	3,845,671	3,670,994
	8,756,416	8,376,080
Less accumulated depreciation and amortization	3,990,305	3,926,557
	$4,766,111	$4,449,523

Depreciation and amortization of leasehold improvements for the years ended July 31, 1985 and 1984 were $825,916 and $706,368.

4.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*.

5.Lease Commitments

Rental commitments under noncancellable operating leases in effect as of July 31, 1985 were $28,424,000. This amount excludes future escalation of 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,	
1986	3,696,000
1987	3,512,000
1988	3,082,000
1989	2,990,000
1990	2,904,000
Years subsequent to 1991	12,240,000
	$28,424,000

Rental expense for the years ended July 31, 1985 and 1984 were $5,177,000 and $4,789,000.

6.Retirement Plan

Substantially all of the Institute's full-time employees are covered by a noncontributory defined benefit pension plan. Pension benefits begin to vest after five years of service and are based on years of service and average final salary. Actuarial assumptions and plan provisions are periodically reviewed by the Institute and its independent actuarial consultant to assure plan assets will be adequate to provide pension and survivor benefits.

The Institute's policy is to fund accrued pension costs. Expenses related to the Institute's pension plan were approximately $614,000 in fiscal 1985 and $987,000 in fiscal 1984. Prior to 1985, the Institute used the frozen initial liability method to determine pension costs. In accord with recommendations received from its independent actuarial consultant, the Institute changed to the projected unit credit method during the year. Over a period of years, the change is expected to reduce fluctuations in pension costs as a percentage of payroll and to reduce the over funding of the pension plan.

The effect of this change was to reduce pension expense by $390,000 for the year ended July 31, 1985. Changes in the assumed rate of return and in other actuarial assumptions reduced pension expense by an additional $85,000.

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

	May 1, 1985	May 1, 1984
Actuarial present value of accumulated plan benefits:		
Vested	$ 6,837,744	$ 6,833,988
Non-vested	823,171	1,395,201
	$ 7,660,915	$ 8,229,189
Net assets available for benefits	$13,395,518	$11,709,390

The actuarial present value of accumulated plan benefits results from applying actuarial assumptions to reflect the time value of money and the probability of making future periodic payments in accord with the plan's provisions. The accumulated benefits information was determined by the Institute's independent actuarial consultants in accordance with the requirements of Financial Accounting Standards Board Statement No. 36, "Disclosure of Pension Information." As required by the Financial Accounting Standards Board, the present value of plan benefits does not take into account (in contrast to the valuations used to determine pension cost) future increases in compensation of eligible employees.

The assumed rates of return used in determining the actuarial present value of accumulated plan benefits was increased from 6% in 1984 to 7% in 1985. This change, along with other actuarial changes had the effect of decreasing the actuarial present value of accumulated plan benefits by $904,000.

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

8.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 1985.

The ARA also makes a best efforts commitment to raise funds for support of the Governmental Accounting Standards Board (GASB). The commitment for 1985 is $400,000.

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

9.Special Purpose and Related Organization Funds

The purposes of the related organization funds are:

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.

Endowment Fund: As part of consolidation of investment funds, the Endowment Fund was transferred from the Institute to the Foundation and consolidated with the Library Fund during fiscal 1983-84.

10. 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, 1985 were:

	Cash	Marketable Securities	Total
Private Companies Practice Section	$ 32,410	$ 409,290	$ 441,700
SEC Practice Section	77,378	1,280,408	1,357,786
	$109,788	$1,689,698	$1,799,486

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

Balance Sheet	July 31, 1985 Private Companies Practice Section	SEC Practice Section
Assets:		
Cash	$ 32,410	$ 77,378
Marketable Securities (quoted market $1,725,664)	409,290	1,280,408
Dues and other receivables	11,659	32,632
	$453,359	$1,390,418
Liabilities and Fund Balances:		
Accounts payable	$ 75,088	$ 200,190
Unearned advance dues	39,397	455,448
Fund balances	338,874	734,780
	$453,359	$1,390,418

Statement of Changes in Fund Balances	Year Ended July 31, 1985	
Additions:		
Dues	$ 80,318	$1,059,085
Other	45,916	104,767
	126,234	1,163,852
Deductions:		
Expenses of Public Oversight Board:		
Salaries and fees	—	586,218
Administrative expenses	—	338,812
	—	925,030
Public relations program	154,083	157,095
Membership directory	18,157	17,995
Legal fees	—	18,197
Administrative and other expenses	59,725	9,297
	231,965	1,127,614
Net increase (decrease) in funds	(105,731)	36,238
Gain on sale of securities	4,080	7,428
Fund balances, beginning of year	440,525	691,114
Fund balances, end of year	$338,874	$ 734,780

In addition to the expenses above, the Institute incurred expenses during the years ended July 31, 1985 and 1984 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 1984-85 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. Over the last five years, revenue has increased at a compound rate of 11.4% per year and expenses at a 12.46% rate. When adjusted for the effects of inflation, these rates of increase are 4.9% and 5.9% respectively. For the year ended July 31, 1985, expenses exceeded revenue on a historical and constant dollar basis by $1,290,000 and $1,409,000 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 return on investments, during the period from fiscal 1981 to 1985, more than offset the loss in purchasing power on all net monetary assets during the same period. Basically, return on investments exceeded the rate of inflation.

Supplementary Information 1981-1985 *(Thousands of Dollars)*

Historical Cost Financial Data as Reported in the Financial Statements	Year Ended July 31,				
	1985	**1984**	**1983**	**1982**	**1981**
Revenue:					
Dues	$20,129	$17,841	$16,643	$12,424	$11,515
CPA examination fees	4,995	5,074	5,237	4,857	3,748
Publications	16,208	15,262	13,622	12,569	10,896
Continuing professional education	16,151	16,950	16,395	14,757	12,215
Other, net	4,575	4,506	3,420	2,435	2,362
	$62,058	$59,633	$55,317	$47,042	$40,736
Percent increase over prior year	4.1%	7.8%	17.6%	15.5%	11.8%
Expenses:					
Salaries and fees	$20,723	$18,302	$17,450	$16,082	$13,961
Personnel costs	3,332	3,179	2,867	2,844	2,381
Occupancy	5,467	5,426	5,026	5,379	4,533
Printing and paper	11,074	9,691	8,423	9,777	8,676
General	22,591	19,246	16,687	13,088	11,364
	$63,187	$55,844	$50,453	$47,170	$40,915
Percent increase over prior year	13.1%	10.7%	7.0%	15.3%	16.1%
Excess (deficiency) of revenue over expenses	$ (1,129)	$ 3,789	$ 4,864	$ (128)	$ (179)
General Fund balance at end of year	$17,693	$18,822	$15,033	$10,169	$10,297
Percent increase (decrease) over prior year	(6.0%)	25.2%	47.8%	(1.2%)	(1.7%)

Historical Cost Financial Data Adjusted for General Inflation *(in Average 1984-85 Dollars)*	Year Ended July 31,				
	1985	**1984**	**1983**	**1982**	**1981**
Revenue:					
Dues	$20,129	$18,527	$17,955	$13,926	$13,973
CPA examination fees	4,995	5,269	5,650	5,444	4,548
Publications	16,208	15,849	14,696	14,089	13,222
Continuing professional education	16,151	17,601	17,687	16,542	14,823
Other, net	4,575	4,678	3,690	2,729	2,866
	$62,058	$61,924	$59,678	$52,730	$49,432
Percent increase over prior year	0.2%	3.8%	13.2%	6.7%	0.4%
Expenses:					
Salaries and fees	$20,723	$19,891	$18,824	$18,027	$16,941
Personnel costs	3,332	3,301	3,093	3,188	2,889
Occupancy	5,747	5,896	5,657	6,138	5,657
Printing and paper	11,074	8,857	9,087	10,959	10,528
General	22,591	20,307	18,002	14,671	13,790
	$63,467	$58,252	$54,663	$52,983	$49,805
Percent increase over prior year	9.0%	6.6%	3.2%	6.4%	4.3%
Excess (deficiency) of revenue over expenses	$ (1,409)	$ 3,672	$ 5,015	$ (253)	$ (373)
Loss of purchasing power on net monetary assets	$ 419	$ 674	$ 327	$ 618	$ 1,103
General Fund balance at end of year	$17,421	$19,249	$16,251	$11,563	$12,434
Percent increase (decrease) over prior year	(9.5%)	18.4%	40.5%	(7.0%)	(10.6%)
Average Consumer Price Index for fiscal year	317.7	305.9	294.5	283.4	261.8
Percent increase over prior year	3.8%	3.9%	3.9%	8.3%	11.3%