University of Mississippi

eGrove

AICPA Annual Reports

American Institute of Certified Public Accountants (AICPA) Historical Collection

1986

AICPA annual report 1985-86; Message to members

American Institute of Certified Public Accountants

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_arprts

Part of the Accounting Commons, and the Taxation Commons

Recommended Citation

American Institute of Certified Public Accountants, "AICPA annual report 1985-86; Message to members" (1986). *AICPA Annual Reports*. 12.
https://egrove.olemiss.edu/aicpa_arprts/12

This Book is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in AICPA Annual Reports by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

AICPA AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
ANNUAL REPORT 1985-1986

message to members

THE ACCOUNTING PROFESSION remained in the spotlight this year. Congress and the media focused on the quality of professional service and the effectiveness of self-regulation. Proposals for tax reform also required our careful attention.

The Special Committee on Standards of Professional Conduct (the Anderson Committee) issued its final report, and plans are being developed for implementation of the committee's recommendations. Progress also is being made in closing the gap between what the public expects of the auditor and what auditors can reasonably deliver. In addition, an independent commission is continuing its study of fraudulent financial reporting.

Meanwhile, our study of the liability crisis

CONTINUED

AICPA 100
A CENTURY OF PROGRESS
IN ACCOUNTING
1887-1987

AICPA ANNUAL REPORT 1985-1986

CONTINUED

continues. Relief is being sought from the unintended consequences of the Federal Racketeer Influenced and Corrupt Organizations Act (RICO), and a program of tort reform is being pursued at the state level.

Internally, a mission statement for the Institute was issued (see page 9), and member services enhanced through a consolidation of activities and the creation of two new voluntary membership divisions for Personal Financial Planning and Management Advisory Services. A special committee also was appointed during the year to pursue the accreditation of specialties. At the same time, a national curriculum is being developed to aid members in absorbing the body of knowledge that is required in specified fields of study.

Finally, we continue to focus on external relations. Our Centennial celebration will give us an opportunity to communicate a positive image of CPAs to the general public. ■

Congressional Activities

Congressional hearings by the Oversight and Investigations Subcommittee of the House Energy and Commerce Committee, now in the second year, focused on the effectiveness of the profession's self-regulatory systems, the standard-setting process, and the failures of certain corporations–particularly financial institutions. At a recent hearing, the Institute reiterated its position that the private sector is able to effectively deal with public concerns and that additional legislation is unnecessary.

Institute representatives also testified on the quality of CPA audits of federal grants at hearings that were triggered by a GAO report citing numerous deficiencies in such audits. In response, a task force is developing recommendations aimed at improving the quality of these audits. As an immediate response, the Institute recommended that, as a condition of undertaking work under those contracts, auditors undergo peer review and be required to take specific CPE programs.

We also were actively involved in commenting on a variety of issues relating to tax reform proposals. In addition, the Institute continued to monitor progress of the implementation of IRS changes to improve communications. The Institute's Tax Division is consulting with the IRS national office on suggested revenue rulings, and other projects regarding regulations have been developed.

A very effective means used to convey the profession's concerns in legislative matters is the Federal Key Person Program. Working together with the state CPA societies, we used this program to alert Congress to the profession's views on major topics of interest to the public and members.

Professional Conduct and Performance

The final report of the Special Committee on Standards of Professional Conduct for Certified Public Accountants, chaired by George Anderson, was issued in July. Entitled *Restructuring Professional Standards to Achieve Professional Excellence in a Changing Environment*, the report is the culmination of a three-year study of the relevance and effectiveness of professional standards in today's environment.

Far-reaching changes are being recommended. The report suggests a completely restructured and updated goal-oriented code of professional ethics. It calls for a quality review program for members in public practice and mandatory continuing professional education for all AICPA members. The report recommends guidance to practitioners for making decisions about the scope and nature of services. Finally,it also recommends that the Institute take appropriate action before the year 2000 to adopt the 150-hour postbaccalaureate education requirement as a condition of membership for new CPAs.

The adoption and implementation of the recommendations requires further action by the AICPA's governing Council and a vote of the membership. In July, a National Leadership Conference was held for state society representatives to initiate a series of member forums to promote thoughtful consideration of the report and to obtain members' informed views. Implementation committees will develop a plan to be presented to the membership for a formal vote next year. Council currently is being asked to present two changes to the membership for vote: a change in the rules of conduct to indicate that client independence is impaired by contingent fee engagements and a by-law requirement that, as a condition of AICPA membership, proprietors, partners or shareholders must practice with firms that are members of the SEC Practice Section of the Division for CPA Firms if these firms audit SEC clients as defined by Council.

The Auditor's Role and Responsibility

Significant actions are being taken to close the so-called "expectation gap"–the gap between what the public expects from financial statements and audit reports and what auditors view as their responsibilities. Projects dealing with this issue are being given the highest priority.

The Auditing Standards Board is considering whether the auditor's responsibility for detection and reporting of errors, irregularities and illegal acts is appropriately described in the current authoritative auditing literature. Efforts also are under way to improve auditor communications including changes in the auditor's standard report, more effective communications with audit committees and opinions on management's discussion and analysis.

A reevaluation is currently being made of existing standards for the study and evaluation of internal control. Additionally, consideration is being given to whether the auditor should be required to obtain evidence explicitly supporting management's assertion that the entity is a "going concern."

Fraudulent Financial Reporting

The independent National Commission on Fraudulent Financial Reporting was established in 1985 to identify ways to detect and prevent financial reporting improprieties. Chaired by former SEC Commissioner James C. Treadway, Jr., the Commission is a private sector initiative, sponsored by the AICPA, the National Association of Accountants, the Financial Executive Institute, the Institute of Internal Auditors, and the American Accounting Association. Its study is grounded in the belief that the integrity of financial reporting is the key to a sound voluntary disclosure system, which in turn is the foundation of our nation's capital formation process.

In its attempts to determine the causes of fraudulent financial reporting, the Commission is studying issues such as the responsibilities of management and the audit committee, corporate culture, the role of the independent public accountant, the accounting profession's system of regulation and enforcement, and the effectiveness of law enforcement.

The Legal Liability Crisis

Turmoil in the domestic and worldwide insurance markets continued to adversely affect accountants' professional liability insurance this year. Members in public practice are facing unprecedented increases in premiums and severe restrictions in coverage. Underwriters for state CPA society programs have largely withdrawn from the market. However, the AICPA Professional Liability Insurance Plan has grown to cover about 15,000 firms, providing stability through a very difficult period. Nonetheless, the high cost of coverage has caused many firms to discontinue participation in the plan. Because there are few alternate markets, it is likely that many of these firms have chosen to practice without insurance coverage, in spite of the fact that risk of suit is greater than ever. Alternatives to existing pricing and coverage are being explored that could provide relief in this troubled market and provide a closer relationship between risk and cost.

One of the roots of the insurance problem is the explosion in legal liability lawsuits facing members in public practice. The Committee on Accountants' Legal Liability chaired by Ray J. Groves has developed a multifaceted legislative tort reform program that either can be separately sponsored by state CPA societies or used as an adjunct to tort reform efforts of coalitions that have been formed in the various states. The program offers model statutory language to substitute "several liability" for joint and several liability, limitations on third party suits against accountants, and penalties for frivolous suits.

The Institute also is working to obtain a legislative solution to the abuses of the civil provisions of the Racketeer Influenced and Corrupt Organizations (RICO) statute. The Institute is spearheading this effort with other professional, business and labor groups.

Division for CPA Firms

The Division for CPA Firms public information program was designed to alert practitioners and the business community to the usefulness of peer review. Close to 2,000 requests for information about the Division or its member firms were received during the year. Over 1,600 CPA firms, which audit more than 85 percent of the public companies in the United States, are now members of the Division. These firms represent almost half of the Institute members in public practice.

Further recognition of the benefits of peer review was evidenced by the Rural Electrification Administration's (REA) new requirement. It stated that all firms auditing an REA borrower after 1987 must participate in an approved peer review program.

SOURCES AND OCCUPATIONS OF AICPA MEMBERSHIP	1976	1978	1980	1982	1984	1986
Total AICPA Membership	121,947	140,158	161,319	188,706	218,855	240,947
Public Accounting	58.5%	57.6%	54.1%	52.5%	51.5%	49.1%
Business & Industry	30.9%	31.9%	35.5%	37.6%	38.4%	39.5%
Education	2.9%	2.8%	2.9%	2.5%	2.7%	2.8%
Government	3.4%	3.4%	3.3%	3.2%	3.3%	3.2%
Retired & Miscellaneous	4.3%	4.3%	4.2%	4.2%	4.1%	5.4%
Membership in Public Practice	71,314	80,723	87,339	99,141	112,673	118,226
Firms with one member	22.3%	23.9%	23.8%	23.5%	23.1%	25.1%
Firms with 2 to 9 members	30.0%	29.9%	33.1%	34.0%	34.0%	34.3%
Firms with 10 or more members, except the	11.1%	11.8%	13.0%	14.5%	15.1%	15.0%
25 largest firms	36.6%	34.4%	30.1%	28.0%	27.8%	25.6%

During the year, additional improvements were made in the peer review process. Many changes were proposed by newly-formed joint task forces composed of representatives from both the SEC Practice (SECPS) and Private Companies Practice (PCPS) Sections. The Division published new peer review program guidelines suitable for use on all peer reviews. Written more in the style of an audit program, the guidelines should contribute both to increased efficiency and better documentation. Improved guidance for modified reports and letters of comment were also issued.

The PCPS continued to expand the services provided to member firms. Two tax booklets were developed for PCPS members and their clients; one is designed to stimulate tax planning inquiries, and the other will summarize the 1986 tax law changes.

The SECPS adopted or modified membership requirements to emphasize the importance of professionalism and objectivity, to improve the effectiveness of second-partner review, and to deal with "opinion shopping."

Specialization

Recognizing the existence of de facto specialization among members and the desire of some to have a particular expertise recognized, Council authorized a program to accredit specialties. The Special Committee on Specialization chaired by Merle S. Elliott will study areas of practice in which members, by meeting experience, examination, and educational requirements, can seek accreditation. Details about the areas to be recognized and the qualifications necessary to be accredited will be reported to the membership as they are developed.

Enhanced Member Services

Although the AICPA has provided member services since its inception, the establishment of the new Member Services Division this year reflects a growing emphasis on meeting the changing needs of members from all sectors of the profession. This new division will consolidate existing programs that provide membership services and it will initiate additional services.

We continue to serve members through conferences, publications, liaison with state societies, and local firm consultations provided by the Management of an Accounting Practice Committee. A new column directed to members in industry made its debut in the *Journal of Accountancy* this year. In addition, an Upward Mobility of Women in Accounting Special Committee chaired by Brenda T. Acken was appointed this year to recommend strategies to strengthen the career progress of women in accounting.

Three regional Local Practitioners Seminars were held this year with practitioners from thirty-seven state societies attending. As in the past, the AICPA and several state societies organized a series of Member Roundtables to bring together a cross-section of members with the Institute's executive staff to discuss current issues and to promote a better understanding of members' needs and Institute services.

The Library, in its sixty-eighth year of service to Institute members, answered 25,000 telephone requests, assisted 12,000 visitors and loaned over 15,000 books and journals to members across the country. The Library's reference guide, *Accountants' Index*, first published in 1920 and updated throughout the year, continued to play an important role in serving the membership.

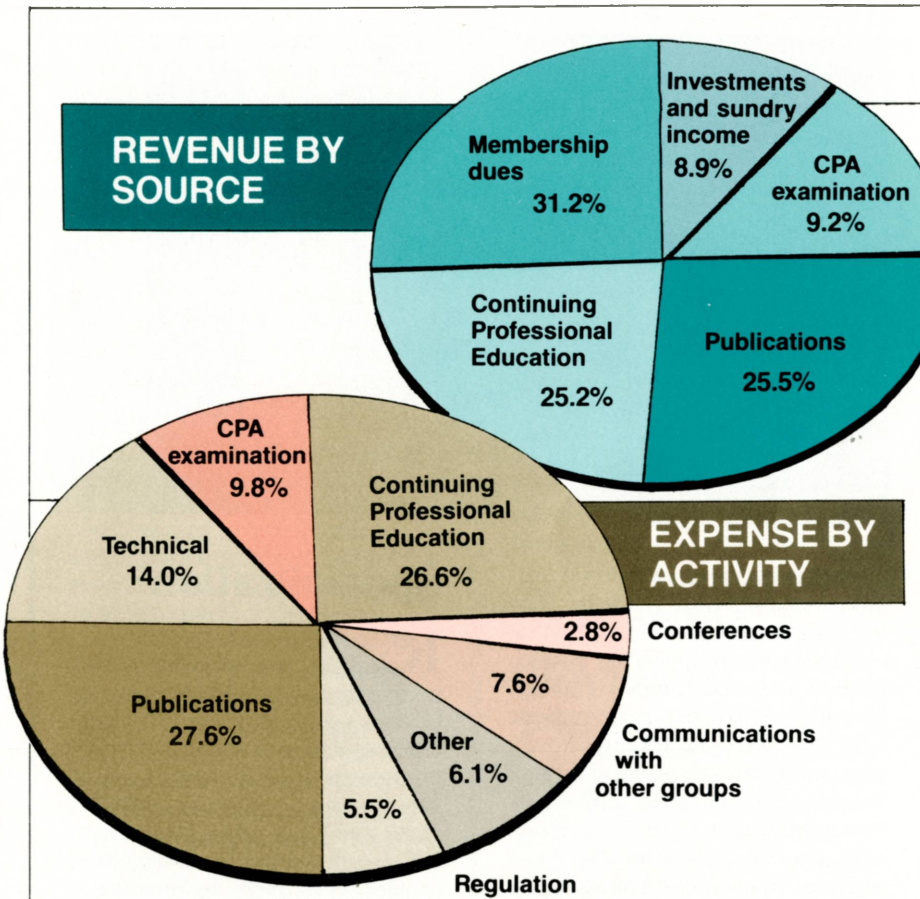
AICPA ANNUAL REPORT 1985-1986

Voluntary Membership Divisions

Responding to the needs of its members, the Institute created two new voluntary member divisions this year. The new Personal Financial Planning and Management Advisory Services Divisions were established by Council in May and went into operation August 1, 1986. The Tax Division continues to provide a variety of services to its members and is constantly exploring opportunities for additional benefits. The voluntary Tax Division has continued to grow, now numbering more than 18,000 members.

The Personal Financial Planning (PFP) Division was established to increase professional and public recognition of the important role that CPAs play in providing PFP services in today's highly complex environment. Among the services available to Division members are a subscription to *The Planner*, a quarterly newsletter that focuses on new developments in the field, PFP practice aids, and discussion seminars with leaders in the field. Members will also benefit from an intensive public awareness program that will reinforce the image of CPAs as independent, objective, and trustworthy personal financial planning professionals.

The new Management Advisory Services (MAS) Division will assist CPAs in responding to the problems and plans of business, not-for-profit, and governmental organizations. Its development underscores the important role CPAs play as advisers to management.



Continuing Professional Education

With emphasis on enhancing the quality of all educational offerings, the Continuing Professional Education (CPE) Division responded to member needs by producing courses on major issues affecting the accounting profession. Approximately 90,000 persons attended CPE group-study programs during the year. The Division focused its attention on three major areas affecting CPAs: preparing for the Tax Reform Act of 1986; personal financial planning; and federal government accounting and auditing. Significant efforts were made to respond to major issues and changes in these areas on a timely basis by developing new courses and supplementing existing courses in group study, self-study, and video.

Another CPE milestone, the National Curriculum project, "A Pathway to Excellence," was launched this year. Developed by over 100 members, the program is a response to member, state society, and Institute concerns regarding the need for a structured and integrated CPE curriculum. The project originated five years ago in response to a significant increase in AICPA membership and a near doubling of CPAs participating in CPE courses.

The curriculum provides a systematic classification of specific knowledge and skill areas needed by CPAs to gain competence in six major fields of study: accounting and auditing, advisory services, management, personal development, specialized knowledge and applications, and taxation. ■

External Relations

With the groundwork firmly established, the Institute moved ahead this year identifying, defining and servicing the diverse needs of its membership. Emphasis was placed on building a positive public impression of CPAs and maintaining the Institute as the authoritative voice of the profession.

To determine the public's attitudes towards CPAs and the accounting profession, the AICPA retained Louis Harris and Associates to conduct a national public opinion poll. The results provide an important data base to use in developing future programs and activities that will best serve our membership. A special committee also has been formed to study the propriety and advisability of supplementing our public relations efforts with an advertising program on behalf of the profession.

The Institute initiated a more aggressive approach in handling relations with the media, arranged press conferences, and continued to publicize individual CPA activities through the hometown press release program. Assistance was given to the media on such prevalent issues as the new tax reform act, RICO, liability insurance, and the regulation of the profession. Video programs were produced on the Annual Meeting, Spring Council Meeting and the Special Committee on Standards of Professional Conduct for Certified Public Accountants.

In a joint project between the AICPA Public Service Committee and the U.S. Office of Consumer Affairs, the Institute produced a brochure entitled "Choosing A Credit Card," which was made available to the public. To date, over 50,000 copies have been distributed.

Approximately 140 CPAs participated in the White House Conference on Small Business, held in August. Their participation in this national event demonstrated the profession's commitment to serving the needs of the small business community. ■

Centennial

In 1987, CPAs will celebrate the one-hundredth anniversary of the creation of the organized profession in the United States. This is a significant milestone, recognizing the emergence of accountancy as a profession distinguished by its education requirements, high professional standards, strict code of professional ethics, licensing status, and commitment to serving the public interest.

The celebration officially begins with the AICPA Annual Meeting in Kansas City, Missouri, in October and will culminate with the AICPA Centennial Meeting in New York City, September 1987. The goals of the Centennial Celebration are to increase the CPA profession's visibility and the public's knowledge of CPA services, and to enhance each member's pride in the profession.

"A Century of Progress in Acounting" is the theme for the Centennial, which will focus on:

- How the CPA's independence and objectivity have helped serve the interest of investors, credit grantors and the general public.
- How business and government have benefited from the profession's expanded and high quality services in an increasingly complex economy.

This will be communicated to the business community, news media, government officials, and general public through a series of special events and other public relations programs to be conducted throughout the year. To herald the Centennial Year, the AICPA will sponsor a float in the 1987 Tournament of Roses Parade in Pasadena on New Year's Day. A book highlighting the impact of CPAs on American life and examining some of the future issues confronting the CPA profession will also be in bookstores in the summer of 1987. A special Centennial issue of the *Journal of Accountancy* will be published in the spring of 1987. Finally, the U.S. Postal Service will be issuing a special commemorative stamp during the Centennial year. ■

International Activities

The Institute continued its efforts to promote high standards of practice among accounting firms worldwide through its membership in the Inter-American Accounting Association, the International Accounting Standards Committee, and the International Federation of Accountants. To foster a better understanding of the international aspects of accountancy among AICPA members, the AICPA International Practice Committee is working with a number of international firms to produce a series of booklets on accounting and auditing in other countries. ■

Staffing Changes

Several executive staffing changes have occurred over the past year at the Institute. Dr. Edward A. Buckley, an experienced association executive, was appointed Vice President of Member Services to coordinate the enhanced member services discussed elsewhere in this message. George R. Dick, CPA, was promoted to the position of Vice President of Review and Regulation, replacing William Bruschi, CPA, who retired after twenty-seven years of distinguished service with the AICPA. In this position, Mr. Dick assumes responsibility for the Institute activities in the areas of professional ethics, quality control review, state legislation, the Uniform CPA Examination, aid to minorities, and relations with educators. ■

Herman J. Lowe
Herman J. Lowe, *Chairman*

Philip B. Chenok
Philip B. Chenok, *President*

Operations

Operations for the current year yielded an excess of revenue over expenses of $1,183,000 or $2,311,000 better than last year. Losses from CPE operations were reduced in the current year as a result of efforts to increase market share and to contain costs. Although CPE is budgeted to operate at the breakeven point during 1987, the expansion of other activities has resulted in an overall budget reflecting an excess of expenses over revenue of about $245,000. An efficiency study is being undertaken by independent consultants to provide the membership with assurance that all possible steps are being taken to contain costs without any diminution of member services. ■

American Institute of Certified Public Accountants Board of Directors 1985-1986

OFFICERS

Herman J. Lowe, *Chairman*
J. Michael Cook, *Vice Chairman*
Philip B. Chenok, *President*
Bernard Barnett, *Vice President*
Irvin F. Diamond, *Vice President*
John R. Meinert, *Vice President*
Don J. Summa, *Treasurer*
Donald J. Schneeman, *General Counsel & Secretary*

DIRECTORS

Paula H.J. Cholmondeley
Merle S. Elliott
Robert C. Ellyson
Barry B. Findley
Barbara Hackman Franklin*
Ray J. Groves†
Thomas L. Holton
Charles Kaiser, Jr.
Alan B. Levenson*
Mahlon Rubin
Ralph Saul*
Joseph A. Silvoso
A. Marvin Strait

†Immediate Past Chairman
*Public Member

MISSION STATEMENT

OF THE

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

The American Institute of Certified Public Accountants is the national professional organization for all certified public accountants. The mission of the AICPA is to act on behalf of its members and provide necessary support to assure that CPAs serve the public interest in performing quality professional services. In fulfilling its mission, the AICPA gives priority to those areas where public reliance on CPA skills is most significant.

To achieve its mission, the AICPA:

1. Promotes uniform certification and licensing standards for CPAs.
2. Sets requirements for maintaining members' professional competence.
3. Assists members in the continuing development of professional expertise.
4. Provides standards of professional conduct and performance.
5. Monitors professional performance to enforce professional standards.
6. Promotes public confidence in the integrity, objectivity, competence, and professionalism of AICPA members and the services they perform.
7. Encourages highly qualified individuals to become CPAs and promotes the availability of appropriate educational programs.
8. Unites CPAs – whether in public practice, industry, education, or government – in their efforts to serve the public interest.
9. Serves as the national representative of CPAs to government, regulatory bodies, and other organizations.
10. Assists members in understanding and adjusting to changes in the economic, political, and technological environment.

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, except for the accounting change made to comply with FASB Statement No. 87. 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.

Herman J. Lowe
Chairman of the Board

KMG Main Hurdman

Certified Public Accountants

Park Avenue Plaza
55 East 52nd Street
New York, NY 10055-0196

Telephone: 212/909-5000
Telex: 424221 MHCUI

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, 1986 and 1985, and the related statements of revenue and expenses, changes in fund balances, and cash flow 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, 1986 and 1985 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, 1986 and 1985, 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 method of accounting for pensions as described in Note 6 to the financial statements, have been applied on a consistent basis.

KMG Main Hurdman

September 4, 1986

Financial Statements

American Institute of Certified Public Accountants

Balance Sheet

	July 31, 1986	July 31, 1985
Assets:		
Cash	$ 209,642	$ 1,134,059
Marketable securities (quoted market: 1986, $21,588,802; 1985, $21,846,956) (Note 1)	19,630,786	20,729,437
Accounts receivable (less allowance for doubtful collections: 1986, $483,000; 1985, $50,000)	6,144,899	4,897,056
Inventories (Note 2)	3,382,166	4,223,349
Deferred authorship costs and prepaid expenses	3,626,081	1,903,677
Furniture, equipment, and leasehold improvements (Note 3)	4,932,016	4,766,111
	37,925,590	37,653,689
Funds held for Division for CPA Firms (Note 10)	1,480,476	1,799,486
	$39,406,066	$39,453,175
Liabilities and Fund Balances:		
Liabilities and deferred revenue:		
Accounts payable and other liabilities	$ 6,374,327	$ 7,307,955
Accrued taxes (Note 4)	915,000	918,265
Advance dues	4,700,631	7,164,691
Unearned revenue from subscriptions and other sources	7,059,077	4,568,955
	19,049,035	19,959,866
Funds held for Division for CPA Firms (Note 10)	1,480,476	1,799,486
General fund balances	18,876,555	17,693,823
	$39,406,066	$39,453,175

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 Revenue and Expenses

	Year Ended July 31 1986	1985*
Revenue:		
Dues	$21,397,272	$20,129,172
Publications	17,501,728	16,208,179
Continuing professional education	17,319,519	16,150,704
CPA examinations	6,293,973	4,995,041
Investment and sundry income	4,338,516	3,251,803
Conferences	1,788,537	1,323,265
	68,639,545	62,058,164
Expenses (see also summary of expenses by activity):		
Cost of sales	15,578,466	15,184,548
Salaries	18,974,193	17,313,379
Personnel costs	2,992,776	3,332,230
Occupancy	5,428,838	5,083,630
Postage and shipping	4,650,705	4,378,963
Printing and paper	4,172,289	3,836,657
Professional services	3,739,890	2,729,543
Meetings and travel	3,439,085	3,535,307
Promotions and advertising	1,774,776	1,608,453
Contributions	1,214,602	1,115,945
Equipment rental and maintenance	1,101,713	976,338
Commercial services	1,037,315	846,714
Income taxes	839,024	869,800
Telephone	688,938	831,579
Fees	405,753	355,833
General and administrative	1,418,450	1,187,785
	67,456,813	63,186,704
Excess (deficiency) of revenue over expenses	**$ 1,182,732**	**$ (1,128,540)**

*Reclassified to conform to 1986 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	
	1986	1985*
Summary of expenses by activity:		
CPA examinations	$ 6,541,109	$ 6,129,341
Publications:		
Cost of sales	13,975,024	13,341,484
Distributed to members and others	4,670,946	4,163,511
Continuing professional education	17,977,231	17,480,419
Conferences	1,913,301	1,584,147
Technical:		
Accounting and review services	92,040	78,397
Accounting standards	960,208	967,783
Auditing standards	1,858,805	1,837,423
Federal taxation	1,473,433	1,232,133
Management advisory services	558,284	455,258
Computer services	18,659	62,365
International practice	406,064	378,813
Technical assistance to members	930,282	684,478
Library	1,312,262	1,290,451
NAARS program	515,299	431,369
Financial Accounting Foundation contribution	483,388	560,000
Accountants' legal liability	495,379	396,459
Fraud commission	307,391	103,809
Regulation:		
Ethics and trial board	1,467,405	1,350,603
State legislation	382,211	427,154
Division for CPA firms	839,707	927,897
Quality control programs	1,044,704	982,698
Organization and membership:		
Board, council and annual meetings	1,072,416	852,626
Nominations and committee appointments	158,916	144,927
Communications with members	279,875	401,840
Membership admissions and records	1,423,184	1,352,892
Membership benefit plans	156,892	123,861
Special organizational studies	410,932	489,249
Communications with other groups:		
Public relations	1,447,827	1,057,564
State societies	222,408	240,034
Universities	638,017	574,474
Federal government	2,810,524	2,471,367
Assistance programs for minority students and businesses	612,690	611,878
Total	$67,456,813	$63,186,704

*Reclassified to conform to 1986 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	
	1986	1985
General Fund:		
Fund balances, beginning of year	$17,693,823	$18,822,363
Excess (deficiency) of revenue over expenses	1,182,732	(1,128,540)
Fund balances, end of year	$18,876,555	$17,693,823

American Institute of Certified Public Accountants

Statement of Cash Flow

	Year Ended July 31	
	1986	1985
Sources of Cash and Cash Equivalents:		
Excess (deficiency) of revenue over expenses	$ 1,182,732	$ (1,128,540)
Depreciation and amortization	2,168,550	2,241,886
Total from operations	3,351,282	1,113,346
Billings for subscriptions and advertising in excess of amounts earned	2,490,122	—
Collections on dues in advance of period to which they relate, net	—	2,119,875
Decrease in inventory	841,183	—
Other—increase in accounts payable and accrued taxes and a decrease in accounts receivable	—	2,096,712
	6,682,587	5,329,933
Uses of Cash and Cash Equivalents:		
Dues earned in excess of amounts collected	2,464,060	—
Payment of authorship and other costs that will be expensed in the future	3,002,937	999,453
Investment in inventory	—	546,019
Amount of subscriptions and advertising earned in excess of amounts billed	—	1,822,429
Purchase of furniture, equipment, and leasehold improvements	1,053,922	1,142,613
Other—decrease in accounts payable and accrued taxes and an increase in accounts receivable	2,184,736	—
	8,705,655	4,510,514
Net increase (decrease)	(2,023,068)	819,419
Cash and marketable securities, beginning of year	21,863,496	21,044,077
Cash and marketable securities, end of year	$19,840,428	$21,863,496

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

Balance Sheet—July 31,

	American Institute of Certified Public Accountants Foundation		AICPA Benevolent Fund, Inc.		Accounting Research Association, Inc.	
	1986	1985	1986	1985	1986	1985
Assets:						
Cash	$ 2,864	$ 12,322	$ 26,349	$ 32,087	$ 8,593	$ 363,193
Marketable securities, at lower of cost or market*	2,173,551	2,027,987	1,397,042	1,362,841	981,404	687,009
Notes and mortgages receivable (net of allowance for doubtful collections 1986, $49,338; 1985, $54,119)	—	—	170,060	140,228	—	—
Dues receivable	—	—	—	—	656,283	369,550
Other receivables	25,518	22,854	13,665	3,257	15,188	2,747
	$2,201,933	$2,063,163	$1,607,116	$1,538,413	$1,661,468	$1,422,499
Liabilities and Fund Balances:						
Liabilities and deferred revenue:						
Accounts payable	$ 29,115	$ 21,820	$ 565	$ 436	$ 208,335	$ 22,560
Unearned advance dues	—	—	—	—	1,048,232	782,853
Scholarships payable	308,000	247,250	—	—	—	—
	337,115	269,070	565	436	1,256,567	805,413
Fund balances:						
General	25,297	22,344	1,606,551	1,537,977	404,901	617,086
Library	884,073	874,425	—	—	—	—
John L. Carey Scholarship Fund	307,643	266,125	—	—	—	—
Accounting Education Fund for Disadvantaged Students	633,324	618,098	—	—	—	—
E.W. Sells Award Fund	14,481	13,101	—	—	—	—
	1,864,818	1,794,093	1,606,551	1,537,977	404,901	617,086
	$2,201,933	$2,063,163	$1,607,116	$1,538,413	$1,661,468	$1,422,499
***NOTE:**						
Marketable securities at market	$2,283,039	$2,103,005	$1,514,119	$1,434,819	$1,042,757	$ 721,172

Statement of Changes in Fund Balances—Year Ended July 31

	American Institute of Certified Public Accountants Foundation		AICPA Benevolent Fund, Inc.		Accounting Research Association, Inc.	
	1986	1985	1986	1985	1986	1985
Additions:						
Investments and miscellaneous income	$ 155,418	$ 170,609	$ 99,549	$ 113,548	$ 65,483	$ 83,693
Contributions/dues	347,524	369,882	26,795	228,176	2,521,884	2,258,161
	502,942	540,491	126,344	341,724	2,587,367	2,341,854
Deductions:						
Contributions/scholarships	526,202	493,718	—	—	2,551,087	1,780,107
Assistance to members and families	—	—	169,282	152,665	—	—
FASB subscription service	—	—	—	—	211,214	182,782
Other	7,869	8,386	14,529	15,211	103,115	75,500
	534,071	502,104	183,811	167,876	2,865,416	2,038,389
Increase (decrease) in fund balance	(31,129)	38,387	(57,467)	173,848	(278,049)	303,465
Gain on sale of securities	101,854	92,093	126,041	104,150	65,864	8,262
Net increase (decrease) in fund balances	70,725	130,480	68,574	277,998	(212,185)	311,727
Fund balances, beginning of year	1,794,093	1,663,613	1,537,977	1,259,979	617,086	305,359
Fund balances, end of year	$1,864,818	$1,794,093	$1,606,551	$1,537,977	$ 404,901	$ 617,086

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.

- 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) and Governmental Accounting Standards Board (GASB) are assessed on a calendar year basis and recorded as additions to the fund balance in equal monthly amounts during each calendar year.

- Receivables for subscriptions are recorded when billed to customers. The receivable balance is offset by an allowance for estimated cancellations. Revenue from subscriptions is deferred and recognized in the statement of revenue and expenses on a straight-line basis over the term of the subscription. Costs involved in fulfilling subscriptions are recorded to provide an appropriate matching of revenue and expense. Subscription procurement costs are charged to expense as incurred.

- Advertising revenue is 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, 1986 and 1985

1. Marketable Securities

Marketable securities, at cost, of the Institute consist of:

	As of July 31 (in thousands) 1986	1985
U.S. Treasury bonds and notes	$ 3,899	$ 7,875
Corporate demand notes	445	460
Bonds, notes and certificates of deposit	8,198	4,552
Equities	7,089	7,842
	$19,631	$20,729
Market	$21,589	$21,847

2. Inventories

Inventories of the Institute at July 31, 1986 and 1985 consisted of:

	1986	1985
Paper and material stock	$ 514,649	$1,038,986
Publications in process	472,584	451,136
Printed publications and course material	2,394,933	2,733,227
	$3,382,166	$4,223,349

3. Furniture, Equipment and Leasehold Improvements

Furniture, equipment, and leasehold improvements of the Institute at July 31, 1986 and 1985 were:

	1986	1985
Furniture and equipment	$5,701,373	$4,910,745
Leasehold improvements	4,108,965	3,845,671
	9,810,338	8,756,416
Less accumulated depreciation and amortization	4,878,322	3,990,305
	$4,932,016	$4,766,111

Depreciation and amortization of leasehold improvements for the years ended July 31, 1986 and 1985 were $880,017 and $825,916.

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 for noncancellable real estate and equipment leases in effect as of July 31, 1986 were $25,619,000. This amount excludes 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,

1987	$ 3,620,000
1988	3,083,000
1989	2,990,000
1990	2,985,000
1991	2,923,000
Years subsequent to 1991	10,018,000
	$25,619,000

Rental expense for the years ended July 31, 1986 and 1985 were $5,572,000 and $5,177,000.

Subsequent to July 31, 1986, the Institute signed a letter of intent to lease new office space in Washington, D.C. commencing February 1, 1987. The proposed lease has a 15-year base period and provides for a minimum total rental of $9,907,000.

6.Retirement Plan

The AICPA sponsors a noncontributory defined benefit pension plan for substantially all employees. Pension benefits begin to vest after five years of service and are based on years of service and average final salary. The AICPA's funding policy is to contribute funds to a trust as necessary to provide for current service and for any unfunded projected benefit obligation over a reasonable period. To the extent that these requirements are fully covered by assets in the trust, a contribution may not be made in a particular year.

The Institute has elected to apply the provisions of FASB Statement No. 87, "Employers' Accounting for Pensions," as of August 1, 1985. In accordance with the transition provision of that statement, pension amounts for fiscal year ended July 31, 1985 have not been restated. Pension expense was approximately $7,000 and $614,000 for fiscal years ended July 31, 1986 and July 31, 1985 respectively. The effect of the change in accounting principles on net pension expense for the fiscal year ended July 31, 1986 was an estimated reduction of $607,000.

The following items are the components of the net pension cost for fiscal year ended July 31, 1986:

Service cost—benefits earned during the year		$ 764,000
Interest cost on projected benefit obligation		893,000
Return on plan assets		
—actual	$(4,488,000)	
—less amount deferred	(3,112,000)	(1,376,000)
Net amortization of unrecognized net asset		(274,000)
		$ 7,000

The excess of plan assets, plus the pension cost accrued but not paid as of July 31, 1985, over the projected benefit obligation amounting to $5,077,000 at May 1, 1985, is being used to offset annual pension expense ratably over the average remaining service period of active plan participants expected to receive benefits. This period is estimated to be 18.5 years.

The funded status of the plan is as shown in the table below:

	May 1,	
	1986	1985
Actuarial present value of benefits for service rendered to date:		
Accumulated benefits based on salaries to date, including vested benefits of $6,869,000 and $5,084,000 for 1986 and 1985, respectively	$ (7,497,000)	$(5,522,000)
Additional benefits based on estimated future salary levels	(3,723,000)	(3,411,000)
Projected benefit obligation	(11,220,000)	(8,933,000)
Fair value of plan assets, invested in equities and bonds	18,023,000	13,396,000
Plan assets in excess of projected benefit obligation	6,803,000	4,463,000
Unrecognized net asset at May 1, 1985 being recognized over 18.5 years	(4,803,000)	(5,077,000)
Unrecognized net gain	(2,007,000)	N/A
(Accrued) pension cost	$ (7,000)	$ (614,000)

The discount rate used to determine the actuarial present value of the projected benefit obligation was 8% as of May 1, 1986 and 10% as of May 1, 1985. The expected long-term rate of return on plan assets used in determining net pension expense for fiscal year ended July 31, 1986 was 10%. The assumed rate of increase in future compensation levels was 5½% and 6½% for 1986 and 1985, respectively.

The AICPA also sponsors a defined contribution plan covering substantially all employees fulfilling minimum age and service requirements. Participation in the plan is optional. Employer contributions are made to the plan equal to a certain percentage of employee contributions. The cost of this plan was $179,353 and $166,758 for 1986 and 1985, respectively.

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. Additional amounts will be provided 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 $2,100,000 for the calendar year 1986.

The ARA also makes a best efforts commitment to raise funds for support of the Governmental Accounting Standards Board (GASB). The commitment for the calendar year 1986 is $400,000.

It is anticipated the Institute and the ARA will continue to support 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.

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, 1986 were:

	Cash	Marketable Securities	Total
Private Companies Practice Section	$4,829	$ 194,475	$ 199,304
SEC Practice Section	2,101	1,279,071	1,281,172
	$6,930	$1,473,546	$1,480,476

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

Balance Sheet	July 31, 1986 Private Companies Practice Section	SEC Practice Section
Assets:		
Cash	$ 4,829	$ 2,101
Marketable Securities (quoted market $1,549,299, total cost $1,473,546)	194,475	1,279,071
Dues and other receivables	4,029	45,793
	$203,333	$1,326,965
Liabilities and Fund Balances:		
Accounts payable	$ 32,909	$ 125,156
Unearned advance dues	34,340	526,551
Fund balances	136,084	675,258
	$203,333	$1,326,965

Statement of Changes In Fund Balances	July 31, 1986 Private Companies Practice Section	SEC Practice Section
Additions:		
Dues	$ 78,301	$1,185,376
Other	28,715	99,687
	107,016	1,285,063
Deductions:		
Expenses of Public Oversight Board:		
Salaries and fees	—	601,101
Administrative expense	—	483,828
	—	1,084,929
Public relations program	189,513	174,572
Printing	59,762	35,402
Membership directory	20,601	18,011
Legal fees	—	74,962
Administrative and other expenses	68,219	7,035
	338,095	1,394,911
Net (decrease) in funds	(231,079)	(109,848)
Gain on sale of securities	28,289	50,326
Fund balances, beginning of year	338,874	734,780
Fund balances, end of year	$136,084	$ 675,258

In addition to the expenses above, the Institute incurred expenses during the years ended July 31, 1986 and 1985 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 1985-86 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 expense 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 9.9% per year and expenses at a 9.4% rate. When adjusted for the effects of inflation, these rates of increase are 6.1% and 5.6% respectively. For the year ended July 31, 1986, revenue exceeded expenses on a historical and constant dollar basis by $1,183,000 and $931,000 respectively.

Supplementary Information 1982-1986 *(Thousands of Dollars)*

Historical Cost Financial Data as Reported in the Financial Statements	**Year Ended July 31,**				
	1986	**1985**	**1984**	**1983**	**1982**
Revenue:					
Dues	$21,397	$20,129	$17,841	$16,643	$12,424
CPA examination fees	6,294	4,995	5,074	5,237	4,857
Publications	17,502	16,208	15,262	13,622	12,569
Continuing professional education	17,320	16,151	16,950	16,395	14,757
Other, net	6,127	4,575	4,506	3,420	2,435
	$68,640	$62,058	$59,633	$55,317	$47,042
Percent increase over prior year	10.6%	4.1%	7.8%	17.6%	15.5%
Expenses:					
Salaries and fees	$20,563	$20,723	$18,302	$17,450	$16,082
Personnel costs	2,993	3,332	3,179	2,867	2,844
Occupancy	5,871	5,467	5,426	5,026	5,379
Printing and paper	11,807	11,074	9,691	8,423	9,777
General	26,223	22,591	19,246	16,687	13,088
	$67,457	$63,187	$55,844	$50,453	$47,170
Percent increase over prior year	6.8%	13.1%	10.7%	7.0%	15.3%
Excess (deficiency) of revenue over expenses	$ 1,183	$ (1,129)	$ 3,789	$ 4,864	$ (128)
General fund balances at end of year	$18,876	$17,693	$18,822	$15,033	$10,169
Percent increase (decrease) over prior year	6.7%	(6.0%)	25.2%	47.8%	(1.2%)

Historical Cost Financial Data Adjusted for General Inflation *(in Average 1985-86 Dollars)*	**Year Ended July 31,**				
	1986	**1985**	**1984**	**1983**	**1982**
Revenue:					
Dues	$21,397	$20,681	$19,035	$18,447	$14,308
CPA examination fees	6,294	5,132	5,413	5,805	5,594
Publications	17,502	16,652	16,283	15,098	14,475
Continuing professional education	17,320	16,594	18,084	18,172	16,995
Other, net	6,127	4,700	4,807	3,791	2,804
	$68,640	$63,759	$63,622	$61,313	$54,176
Percent increase over prior year	7.7%	0.2%	3.8%	13.2%	6.7%
Expenses:					
Salaries and fees	$20,563	$21,291	$19,526	$19,341	$18,521
Personnel costs	2,993	3,423	3,392	3,178	3,275
Occupancy	6,123	6,160	6,057	5,812	6,306
Printing and paper	11,807	11,378	10,340	9,336	11,260
General	26,223	23,210	20,532	18,496	15,073
	$67,709	$65,462	$59,847	$56,163	$54,435
Percent increase over prior year	3.4%	9.4%	6.6%	3.2%	6.4%
Excess (deficiency) of revenue over expenses	$ 931	$ (1,703)	$ 3,775	$ 5,150	$ (259)
Loss of purchasing power on net monetary assets	$ 180	$ 527	$ 674	$ 327	$ 618
General fund balances at end of year	$18,671	$17,920	$20,150	$17,049	$12,226
Percent increase (decrease) over prior year	4.1%	(11.0%)	18.2%	39.4%	(6.7%)
Average consumer price index for fiscal year	326.4	317.7	305.9	294.5	283.4
Percent increase over prior year	2.7%	3.8%	3.9%	3.9%	8.3%