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1988

## AICPA annual report 1987-88; Measure of Excellence

American Institute of Certified Public Accountants

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**AICPA**

American Institute of Certified Public Accountants

*“The Measure of Excellence”*

**ANNUAL REPORT  
1987-1988**

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## MESSAGE TO AICPA MEMBERS:

**W**ithout question, this was a unique year in the history of the profession and the Institute.

**It was a year of transition.**

We concluded our year-long centennial celebration and began laying the foundation for the profession's role in the next 100 years.

**It was a year of achievement.**

Our greatly expanded Washington activities resulted in a rousing victory on the year-end conformity issue.

**Most importantly, it was a year of commitment.**

You elected to abide by even higher standards of excellence in the future by overwhelmingly adopting the six proposals under the Plan to Restructure Professional Standards. These new rules on professional

ethics, mandatory quality review of firm practices and procedures, continuing professional education standards, and increased academic requirements for future admission to the AICPA should effectively guide the profession in fulfilling its responsibilities to the public, to the business community, and to itself.

The Plan is only one reflection of your recognition of the need for the profession to move forward. Earlier this year, the AICPA's Auditing Standards Board released nine new standards to clarify and strengthen current audit requirements. In addition, the Institute launched a national advertising program to enhance the image of Institute members in the eyes of the public.

Looking to the future, we are directing increased attention to the diverse educational needs of our profession. We will expand our continuing education program, consider new specialist designations, initiate an aggressive campaign to attract the highest-caliber students into the profession, and promote even more effective education for these CPA candidates.

Through the strategic planning process, we will emphasize the Institute's mission of helping members serve the public interest, and guide the Institute in the development of new programs and services to meet that objective. In addition, a special committee is now studying the governance and structure of the AICPA and the profession to assure that we are prepared to meet future challenges.

Many of the activities launched this year are new, developed to address the changing needs of our society. But some things never change. AICPA members continue to foster those qualities which our predecessors embraced 100 years ago, and in which we all take great pride—integrity, objectivity, and competence.

That's why today we can claim with confidence that AICPA membership remains the measure of excellence.



A. Marvin Strait  
Chairman of the Board

Philip B. Chenok  
President

## **The Measure of Excellence**

In January 1988, AICPA members launched the second century of the accounting profession with a landmark vote.

Across the country, members declared a resounding "yes" to higher professional standards accepting, by an overwhelming margin, all six proposals set forth in the Plan to Restructure Professional Standards. Among other initiatives, the American Institute of Certified Public Accountants became the first national professional association to enact a mandatory quality review program.

A total of 183,483 AICPA members cast ballots over a two-month period, which concluded on January 12. When the votes were tallied, the members' choice was overwhelmingly apparent.

**92 percent voted in favor** of updating the existing rules of conduct with a Code of Professional Ethics consisting of principles and rules.

**76 percent voted in favor** of requiring a practice-monitoring program for members in public practice.

**94 percent voted in favor** of restructuring the Joint Trial Board to promote uniformity of findings and reduce duplication of enforcement procedures.

**90 percent voted in favor** of requiring continuing professional education for members in public practice.

**74 percent voted in favor** of requiring continuing professional education for members not in public practice.

**82 percent voted in favor** of requiring applicants for AICPA membership after the year 2000 to have at least 150 collegiate-level semester hours, including a bachelor's degree or its equivalent.

This unprecedented vote testifies to the commitment of AICPA members to render superior service to their clients, employers, and all who benefit from their skills.

Truly a watershed event, the vote makes membership in the Institute the mark of quality and the measure of excellence for CPAs across the country.

## **Implementing the Plan**

Propelled by members' emphatic endorsement of all six proposals, the Institute entered the profession's second century with new energy.

Much of that energy is focused on implementing the Plan's keystone proposal: the establishment of a quality review program to meet the new practice monitoring requirement. The Institute has stepped up efforts to inform members and state societies about the implementation schedule, costs, and administration of the review program.

In March 1988, members of Council elected a slate of candidates to the new Quality Review Executive Committee. One month later, enrollment forms were mailed to approximately 48,000 practice units, along with answers to the most frequently asked questions about the review program and a schedule indicating the years in which respondents will be asked to have their first review. The specific year will be determined by random selection. Initial reviews will be phased in over a five-year period beginning in 1989.

As the timetable on page 3 makes clear, the 1989 program will cover only those firms employing more than 10 professionals. Moreover, during 1989, only five to 10 reviews will be performed in a pilot program in each state.

Another pressing concern has been the need to assure consistency in quality reviews throughout the country. To address this issue, the Quality Review Executive Committee is carefully designing review standards and procedures that will take into account differences in the size of firms as well as the nature of their practices. For example, firms that perform no audits will have only an off-site review of a few selected reports and financial statements.

In addition, the Institute has designed a computer system that will enable participating state societies to share in the implementation and administration of the program. The system will also reduce clerical work to a minimum and, at the same time, allow for the development of valuable statistics.



<b>QUALITY REVIEW SCHEDULE</b>					
	<b>Year for Initial Review</b>				
	<b>1989</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>
<b>Sole Practitioners:</b> Without audits With audits			✓	✓ ✓	✓
<b>Two to Ten Professionals:</b> Without audits With audits		✓	✓ ✓	✓ ✓	
<b>Over Ten Professionals:</b> Without audits With audits	✓	✓ ✓			

### **Closing the Expectation Gap**

As part of the widest-ranging changes in almost 50 years, the Auditing Standards Board has issued nine new statements on auditing standards, which begin to take effect January 1, 1989.

These changes aim at reducing the "expectation gap" that exists between the public's perception of the auditor's responsibilities and the auditor's ability to reasonably perform them.

The final standards, developed with the input of nearly 1,200 letters of comment from auditors and the public, will affect every auditor, client, and user of financial statements. Among other things, significant changes were made in the auditor's standard report.

The new standards clarify the auditor's responsibility for detecting and reporting fraud and illegal actions, and for evaluating a company's ability to remain in operation in the coming year.

Improving audit effectiveness is another focus of the new standards, as is enhancing auditor communications to both company audit committees and to other users of financial statements.

These new standards should help the public understand the objectives and directions of an audit while at the same time moving the auditor's responsibility and performance closer to public expectations.

### **Continuing the Treadway Initiative**

The AICPA and the other sponsoring organizations of the National Commission on Fraudulent Financial Reporting, chaired by former SEC Commissioner James C. Treadway, have taken great strides in considering the Commission's recommendations. Working with a committee consisting of representatives from the Financial Executives Institute, the Institute of Internal Auditors, the American Accounting Association, and the National Association of Accountants, the AICPA is helping to monitor progress in making the Commission's recommendations a reality.

Through research projects, educational programs, and numerous publications, the Committee of Sponsoring Organizations, chaired by former AICPA Chairman J. Michael Cook, is encouraging the senior management of public companies to develop written codes of conduct and to make an assessment of their companies' compliance with the Treadway Commission's recommendations.

Future directions will be based, in part, on a recent survey of publicly traded companies. Meanwhile, efforts are under way to develop internal control guidance to eliminate confusion in the literature of the organizations. Periodic reports will be issued on the progress in achieving the Commission's recommendations.

## **Making a Difference on Capitol Hill**

This past year, CPAs' call for higher business ethics, fairer legislation, and increased responsibility for the public interest made itself heard, loud and clear, in the nation's capital. B.Z. Lee, recently designated Special Assistant to the Chairman for Washington Activities, and an experienced staff including two newly named vice presidents, Joe Moraglio, Vice President—Federal Government Relations, and Mary Frances Widner, Vice President—Political and Legislative Affairs, deserve much credit for the Institute's aggressive posture in Washington.

### **Responding to Congress with Leadership**

Under the chairmanship of Rep. John D. Dingell (D-MI), the Subcommittee on Oversight and Investigations of the House Energy and Commerce Committee has held 23 hearings on accounting issues and heard 153 witnesses in the past three-and-one-half years.

In 1988, the primary focus of the Subcommittee has been the Treadway Commission recommendations on fraudulent financial reporting. Our efforts moved Chairman Dingell to make this observation: “The accounting profession—through the American Institute of Certified Public Accountants—has made substantial improvements in their audit standards to meet the Treadway Commission's recommendations. Their decisive and timely action, as well as their willingness to work with the Subcommittee on further improvements, is commendable.”

Undoubtedly, we will have to face difficult and controversial legislative issues in the upcoming Congress. But we have turned an important corner in our dealings with Congress.

### **Winning an Important Victory**

The profession achieved a hard-earned victory in the tax area. A provision allowing the retention of fiscal years for certain entities was included in the tax bill passed by Congress and signed by

President Reagan. The corrective legislation provides relief from 1986 tax provisions that required the use of a calendar tax-year for partnerships, S corporations, and personal-service corporations.

Significant endeavors included numerous meetings between the AICPA and members of the House and Senate committees, as well as their technical tax staffs. In addition, the Institute testified before the Senate Finance Subcommittee on Taxation and Debt Management.

Another key component of the successful effort to retain fiscal years was the personal involvement of thousands of CPAs throughout the nation who contacted their senators and representatives.

The Tax Division mailed a practice-aid explaining the specifics of the legislation to all practice units within a week of the law's passage.

### **Working to Limit Liability**

The AICPA is actively working to enact legislation that would revise the rules on joint and several liability, and restrict the ability of unforeseen third parties to sue accountants for negligence. To date, the profession has been instrumental in the passing of “privity” bills in Illinois, Kansas, and Arkansas.

In addition, the AICPA continues to seek out opportunities to file “friend of the court” briefs where a state's highest court has not previously ruled on the privity issue.

Reform of the Racketeer Influenced and Corrupt Organization's Act (RICO) also remains one of the Institute's highest priorities. The civil provisions of this law have led to lawsuits claiming billions of dollars against accounting firms, legitimate businesses and labor unions.

There are two RICO-related bills in Congress that the AICPA supports. In May of this year, the Senate Judiciary Committee reported to the full Senate an amended version of S. 1523 which now has the Institute's full support since its onerous provisions were removed in the Committee mark-up. This bill is now awaiting action on the Senate floor.

In the House of Representatives, Rep. Rick Boucher (D-VA), a long-time proponent of RICO reform, has introduced H.R. 4923 which contains the exact same language as its Senate counterpart,



S. 1523. The accounting profession, other members of the business community and the nation's labor unions are all working to attract co-sponsors for the Boucher bill.

### **Enhancing Federal Financial Management**

Following the endorsement by the Board of Directors, AICPA Chairman Marvin Strait and President Philip Chenok wrote to all members of Congress, the President, and his Cabinet to express their concern over the current weaknesses in federal financial management and systems.

To improve these conditions, a task force of the AICPA is working to assure implementation of: a chief financial officer for the federal government and for each federal executive department and agency; a uniform body of accounting and reporting standards; a requirement for preparing and promulgating meaningful and useful department-, agency-, and government-wide financial statements; and a requirement for an annual independent audit.

This call for improved federal financial management is a sound, bipartisan government issue—consistent with the AICPA's goal of uniting CPAs in their efforts to serve the public interest.

### **Improving the Quality of Governmental Audits**

During the past year, most of the recommendations of the Task Force on the Quality of Audits of Governmental Units have been or are in the process of being implemented, including new GAO audit requirements for mandatory continuing professional education and participation in an external quality review program.

In a recent letter to Chairman Strait, Congressman Jack Brooks (D-TX), Chairman of the Government Operations Committee, commended the AICPA for its efforts to improve CPA audit quality and for its handling of referrals of alleged substandard work.

### **Meeting the FTC Challenge**

The FTC investigation of certain of the Institute's rules of conduct, which started in January 1985, appears to be nearing

an end. In July 1987, the governing Council rejected an FTC proposal that would have permitted commissions but prohibited contingent fees for certain attest engagements. In view of the possibility of litigation, the Council decided that the challenged rules should not be enforced until the matter was resolved.

Negotiations continued with the FTC staff and, at a special meeting of Council on August 30, 1988, the officers were authorized to sign a proposed agreement. The agreement would permit the AICPA to prohibit acceptance of contingent fees or commissions from clients for whom a member performs audits, reviews, compilations, or prospective financial statement services. The agreement would also allow the Institute to require any member accepting a commission to disclose that fact without any time limitation. The signed agreement will be submitted to the Commission, and after a sixty-day public comment period, could become effective before the end of the year.

### **Lobbying for Taxpayer's Rights**

The AICPA is backing the "Taxpayer Bill of Rights," approved by the Senate Finance Committee this past spring. The Tax Division had endorsed the concept of such legislation in September 1987 and has participated with Senator David Pryor (D-AR) and his staff in the continuing development of the legislation.

The proposal would provide a better balance between the rights of taxpayers and the authority of the IRS in the administration of our self-assessment system. The bill would improve notification procedures on audit and collection matters, curb the present IRS taxpayer interview procedures, and expand the right to recover representation costs from the IRS in certain circumstances.

### **Congressional Support**

Last year, the AICPA Effective Legislation Committee, having received generous support from many Institute members, made donations to nearly 200 candidates for the House and Senate who helped or assisted the AICPA on issues critical to the profession.

The AICPA political action committee is an essential tool in the management of our Washington activities.



## **Building Tomorrow with Education Today**

In light of the dramatic challenges and changes our members now face, the need for continuing professional education (CPE) is more pressing than ever before.

Leading the AICPA's continuing education program is newly appointed Vice President for CPE, Joseph Cote, former CPE director for the California Society of CPAs. Under his leadership, the Continuing Professional Education Division responded quickly to new developments in tax law and auditing standards. Courses on TRA '86, passive-activity losses, alternative minimum tax rules, and year-end tax strategies offered members and their staffs the tax education they needed, when they needed it.

A series of conferences and courses on the new auditing standards offered insight into the standard-setting process and compliance procedures.

The success of these programs, together with a tough cost-containment program, account for the fact that CPE revenues exceeded expenses. Consequently, the AICPA has decided to hold the line on CPE prices to individual members and state societies for 1988-89.

The CPE Division has also written a formal business plan that outlines 18 business directions for the Division over the next three years. These directions include upgrading the quality of all CPE programs, working more effectively with other AICPA divisions, and being more responsive to the needs of state societies.

Future directions of the Division include the introduction of more advanced courses for local firm practitioners, a Government Accounting and Auditing Certificate of Educational Achievement Program, more courses for members not in public practice, and computer-based training.

These goals reflect the Institute's commitment to further enhance the CPA's educational and professional status. To this same end, the Institute granted the specialty designation of "Accredited Personal Financial Specialist" (APFS) to 94 CPAs early in 1988. This is the first time that the AICPA has accredited CPAs in any area of expertise.

Other areas under discussion for the accredited specialist designation program include governmental accounting and auditing, management advisory services, and federal taxation.

Both the CPE and new specialist designation programs work to preserve the vitality of the profession in today's rapidly changing environment. But action must also be taken to insure the profession's future vitality. Members signaled their recognition of this by overwhelmingly approving the proposal requiring new applicants after the year 2000 to have 150 semester hours of education, including a bachelor's degree or its equivalent.

The members' vote of confidence propelled the AICPA's efforts to encourage legislative enactment of the 150-hour educational requirement, and to communicate the importance of that requirement to academic institutions.

For example, the Institute widely distributed a revision of the booklet, *Education Requirements for Entry Into the Accounting Profession*, to provide schools with more specific guidance on curricula. The document outlines a sample 150-hour, broad-based academic program for accountants. Complementing the curricula guide is a new Accounting Program Admission Test, designed to help schools better identify students with the potential to succeed in the accounting field.

In the long run, however, identifying students with the potential to succeed may not be as difficult as attracting the students to the profession in the first place. To confront this challenge, the Board of Directors created the position of Vice President of Education to spearhead an expanded program to attract high-caliber students into the profession and to assure that their educational preparation is of the highest quality.

## **Increasing Member and State Society Support**

In recognition of the increasing need for interaction between the Institute and state societies at the highest levels, the position of Executive Assistant to the President—State Society Relations was created. Jay Rothberg, formerly executive

SOURCES AND OCCUPATIONS OF AICPA MEMBERSHIP					
	1980	1982	1984	1986	1988
Total AICPA Membership	161,319	188,706	218,855	240,947	272,479
Public Accounting	54.1%	52.5%	51.5%	49.1%	46.5%
Business & Industry	35.5%	37.6%	38.4%	39.5%	39.6%
Education	2.9%	2.5%	2.7%	2.8%	2.7%
Government	3.3%	3.2%	3.3%	3.2%	3.6%
Retired & Miscellaneous	4.2%	4.2%	4.1%	5.4%	7.6%
Membership in Public Practice	87,399	99,141	112,673	118,226	126,771
Firms with one member	23.8%	23.5%	23.1%	25.1%	24.8%
Firms with 2 to 9 members	33.1%	34.0%	34.0%	34.3%	33.6%
Firms with 10 or more members, except the 25 largest firms	13.0%	14.5%	15.1%	15.0%	16.4%
	30.1%	28.0%	27.8%	25.6%	25.2%

director of the Louisiana CPA Society, was named to this post.

To improve communications on Washington activities, John Sharbaugh, former executive director of the North Carolina CPA Association, joined the AICPA Washington office as Director of Communications and State Society Relations.

From professional initiatives to legislative activities to educational programs, the AICPA's primary purpose is helping its members serve the public interest. Christopher Seidel, the newly appointed Vice President of Member Services, plays a major role in providing member support.

To better serve members in public practice, the Institute's Management of an Accounting Practice (MAP) Committee has begun developing more programs for firms based on their size. The result will be more programs for both the small and large firms. In addition, the committee is expanding its practice-management publications.

Working to be more responsive to AICPA industry members, the Industry Committee conducted the first comprehensive survey of this group's needs, interests, and attitudes. Drawing an excellent response, the survey will provide directions for future services for industry members.

Members will continue to receive substantial support from the AICPA's library and technical information staff.

The library, in addition to the ongoing production of the *Accountants' Index* and *Accountants' Index Data Base*, responded to 44,000 questions, while the Technical Information Division answered some 40,000 members' questions on topics ranging from compilation to consolidation.

### **Giving Members the Right Resources**

Institute publications were especially successful this past year. Strong demand for revisions of existing publications and an enthusiastic reception by members for many new publications contributed to a 14% growth in revenues.

The Institute launched a new *Client Tax Letter* for clients of members and issued a booklet on *Coping with Tax Reform*.

The *Journal of Accountancy* introduced "Emerging Issues Task Force Update" as a regular department, and plans are under way to launch other new technical departments.

Building on its solid foundation of information resources, the Institute con-



tinues to meet member demands for new technical materials and practice aids.

A new program, developed with Mead Data Central, Inc., now puts computer-assisted tax and accounting research within the reach of all members. The Total On-Line Tax and Accounting Library (TOTAL) permits a member with a personal computer and modem to access the AICPA's National Automated Accounting Research System (NAARS); the FEDTAX library which includes: laws, regulations, rulings, and many daily tax services; the news and wire services library (NEXIS); and many other libraries.

Augmenting the Institute's computerized audit-tool series is the newly developed *Accountant's Trial Balance* (ATB). Designed to offer assistance with compilations, reviews, audits, and the preparation of tax returns and financial statements, ATB generates workpapers including the trial balance, journals, lead schedules, user-definable grouping schedules, and analytical procedure worksheets.

A third computer product, *Interactive Data Extraction and Analysis* was made available to AICPA members in cooperation with the Canadian Institute of Chartered Accountants. It is a simple-to-use tool for extracting and analyzing data from a wide variety of main-frame, mini- and microcomputer systems.

### **Insurance Programs Make Progress**

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**G**reat strides have been made in the AICPA's Professional Liability Insurance Plan. As the plan recovers from severe restrictions imposed by the insurance crisis of 1985-86, participation continues to grow.

A new method of pricing, adapted in 1987, based on a firm's revenue rather than the number of personnel, has been deemed more equitable by plan participants. Firms which left the plan because of sharp increases in premiums may now return at substantially lower premiums by foregoing prior-acts coverage.

A CPA-owned captive insurance company, independent of the AICPA, was established in 1988 by 2,624 participating firms with initial capital contributions in excess of \$8.5 million. The captive is

currently participating as a reinsurer on all policies in the Institute's Professional Liability Insurance Plan.

Another insurance program, the AICPA Insurance Trust, remains as strong as ever. Now in its 40th anniversary year, the Trust continues to provide the accounting profession with life insurance and long-term disability insurance programs that offer a combination of strength, flexibility, economy, and most importantly, quality service to their participants. For the 39th consecutive year, cash refunds are being distributed to eligible participants.

### **Membership Divisions Respond to CPAs' Needs**

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**O**ne of the challenges the Institute constantly faces in initiating new member services is responding to the diverse needs of its membership.

Our profession is one of great variety and exciting new ventures. In the past 10 years, AICPA membership has grown from 140,158 to over 270,000.

#### **Division for CPA Firms**

**N**owhere has that growth been as impressive as in the Division for CPA Firms.

Membership in the Division climbed to an all-time high as of July 31, 1988: 3,261 firms, accounting for 132,329 professionals. Membership had been increasing steadily, but spurted in the spring due to the favorable vote on the Plan to Restructure Professional Standards.

The year brought more than just increased membership to the Division. In response to the report of the Treadway Commission, the SEC Practice Section (SECPS) provided more specific guidelines on the concurring-review membership requirement, and also took steps to insure that more initial audits of SEC clients will be included in the scope of peer reviews.

The peer-review programs of the Division have been and will continue to be important. But, as the Division's 1988 communications program points out, Division membership represents a "shared commitment to excellence," that involves learning from one another.

To help members do that, the Private Companies Practice Section (PCPS) has run a highly successful annual conference for 10 years. In addition, the PCPS continues to emphasize its advocacy role on behalf of local practitioners and the private companies they serve.

### **Tax Division**

Another burgeoning division of the AICPA is the Tax Division. Over 20,000 members have joined this Division, attracted by checklists, practice aids, publications, and information on current tax developments. With more staff and a reorganization of the Division's subcommittees, member interest and benefits should continue to increase.

A major undertaking of the Tax Division this year was working with Congress and the Treasury Department on the fiscal-year legislation.

Another major effort was directed at convincing the IRS to change its new policy which required the taxpayer to be present at the initial interview of each audit, even though a CPA held a power-of-attorney to represent the taxpayer. In October, Commissioner Gibbs announced at the AICPA National Conference on Federal Taxes that this policy would be modified, and in November, Deputy Commissioner Brennan wrote the AICPA that taxpayers would not be required to be present at the interview. The Tax Division is continuing to work with the IRS in revising training materials and otherwise attempting to assure that this new policy is made effective throughout the country.

The Tax Division also experienced a substantial growth in its day-to-day interactions with Congress, the Treasury, and the IRS, providing oral testimony on six occasions and technical written comments 27 times.

### **Personal Financial Planning Division**

Equally active this year was the Personal Financial Planning (PFP) Division, which saw its membership increase to over 10,000.

As part of a comprehensive program to expand member services and status, the Division has requested and received senior technical committee status. This move will enable the PFP Division to

issue guidance in the personal financial planning practice area.

In addition, the Division launched a campaign to increase public awareness of CPAs as personal financial planners. The program paid significant dividends by achieving increased national media coverage of CPAs in this high-profile field.

The Division also continued to monitor federal and state regulation of personal financial planners. A roundtable discussion on this issue, sponsored by the Division, attracted lawyers from a number of public accounting firms.

An especially notable coup scored by the Division this year was the introduction of the Accredited Personal Financial Specialist Program. A practice-review questionnaire for use in annual recreditations has also been developed.

Equally exciting is the new certificate program developed in a cooperative venture with the CPE Division. The CPE Division now offers a Personal Financial Planning Certificate of Educational Achievement Program, an integrated series of seven courses on personal financial planning.

Capping a year of major achievement was the Division's first annual National Technical Symposium, held in conjunction with the AICPA's 1987 annual meeting.

### **Management Advisory Services Division**

The Management Advisory Services (MAS) Division also launched its first annual meeting this year. Held in conjunction with the national MAS Conference in New Orleans during October 1987, the conference was positively received.

Members of the MAS Division, which now number 5,000, received several new MAS publications this year, including two Small Business Consulting Practice Aids, an MAS Special Report, two MAS Practice Administration Aids, and a Technical Consulting Practice Aid.

The number of items in the Division's library is now close to 30, with another 30 publications currently in various stages of development.

To further extend its data services, the Division conducted a survey of MAS practitioners and practices. Designed to



facilitate the initiation of a program for the exchange of information and services among members, the survey indicated that about 70 percent of Division members are in firms with 20 or fewer professionals, and that members are highly interested in an exchange program.

### **Communicating Credibility**

Reflecting the AICPA's overall pursuit of excellence, the Institute focused this year on promoting awareness of the profession's most significant issues among both members and the public.

The year-long Centennial campaign successfully raised the CPA's visibility and helped increase public awareness of the high standards to which CPAs adhere.

While the Centennial celebration was winding down, the AICPA launched a full-scale educational program on the Plan to Restructure, including a direct-mail and telephone campaign; a special “800” telephone number; brochures; a videotape; and extensive media coverage. The final vote was announced in an advertisement in *The Wall Street Journal*.

A major advertising program, initiated late this year, underscored the Institute's commitment to quality. A series of five ads, with the tag line “The Measure of Excellence,” appeared in national editions of *USA TODAY* and *The Wall Street Journal*. In addition, ads will appear during the next fiscal year in *Time*, *Newsweek*, *Forbes*, *Fortune*, *Inc.*, and other national magazines.

Placements in both print and electronic media continued at a high level. The stories focused on tax reform, the profession's high ethical standards and the broadening scope of services. Members' participation in the Institute's rigorous media training program helped to strengthen the profession's overall media relations program.

To gain even more media attention for the profession, the Institute conducted its first poll of members on a broad range of business and economic issues. The results were widely publicized in June. A few months earlier, the AICPA scored a solid media hit by working with the U.S. Office of Consumer Affairs and the Better Business Bureau to develop a brochure on home equity loans for National Consumer's Week.

The Institute is currently involved in publicizing its support of the Taxpayer Bill of Rights and the AICPA proposal to improve government financial reporting and accountability.

While special programs were in full swing, the AICPA stepped up its basic member services, providing more speeches, brochures, and slide presentations than in any previous year. Demand for these materials has broken all records.

### **Striving for High Standards Worldwide**

The Institute continues to be active on the international frontier through its participation in the International Federation of Accountants (IFAC) and the International Accounting Standards Committee (IASC).

AICPA representatives serve on key IFAC Committees, including the International Auditing Practices Committee, the Ethics Committee, and the Public Sector Committee. This latter committee, newly created by IFAC, will be issuing guidelines on auditing, accounting, and financial reporting matters for the public sector.

Through the efforts of the two United States representatives on the International Accounting Standards Committee (IASC), the AICPA influences the development of international accounting standards. The Institute works closely with the FASB to support the IASC's goal of achieving harmonization of U.S. and international accounting and financial reporting standards.

To help members better understand the international aspects of accountancy, three new volumes were added to the *Professional Accounting in Foreign Countries* series. Eight titles are currently available.

### **Planning for the Future**

Building on the solid foundation developed by the Future Issues Committee, and guided by the Institute's mission of helping members serve the public interest, the Strategic Planning Committee—chaired by AICPA President Philip Chenok—has been working to chart a course for the future. Members



of the Governing Council, the Board of Directors, key Institute committees, and others have been involved in the planning process. Based on the Committee's assumptions about the future, strategic thrusts and directions are being developed to help members overcome threats and take advantage of opportunities.

**Institute Operations**

Operations for the past year resulted in an excess of revenue over expenses of \$459,000, an improvement of \$1,264,000 over last year's results and \$1,993,000 better than the budgeted deficit of \$1,534,000. Revenue exceeded budget by \$5,748,000, primarily because of higher than anticipated sales of CPE material and publications.

Expenses were greater than budget by \$3,755,000 due, in part, to higher cost of sales and other expenses that are directly related to the higher than budgeted revenue, and, in part, due to decisions during the year to undertake projects that were not anticipated when the budget was prepared.

The budget for 1988-89 shows an excess of revenue over expenses of

\$247,000. The recent dues increase will help assure that operations are kept on a sound financial basis during fiscal 1988-89.

**Maintaining Excellence**

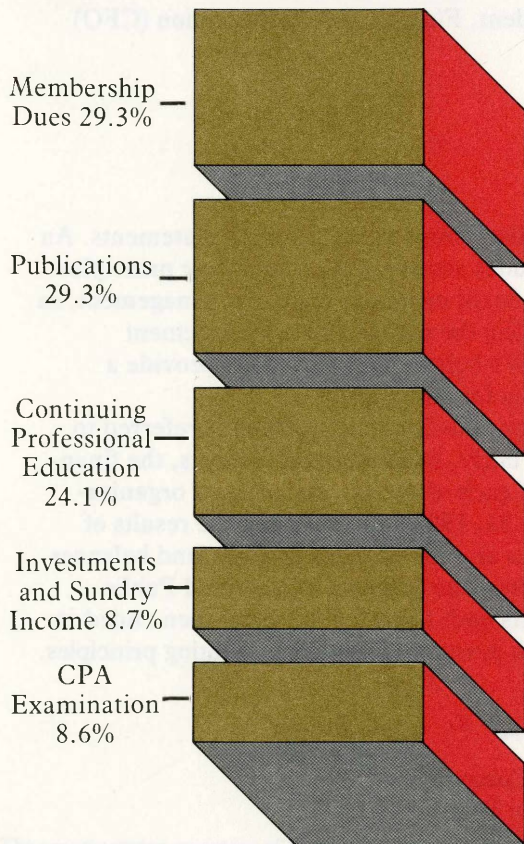
Late in 1987, the Board of Directors appointed a special committee to study the governance and structure of the AICPA and the profession.

Among other issues, the committee is examining the Institute's working relationship with other accounting organizations, including state societies, state boards of accountancy, and standards-setting bodies.

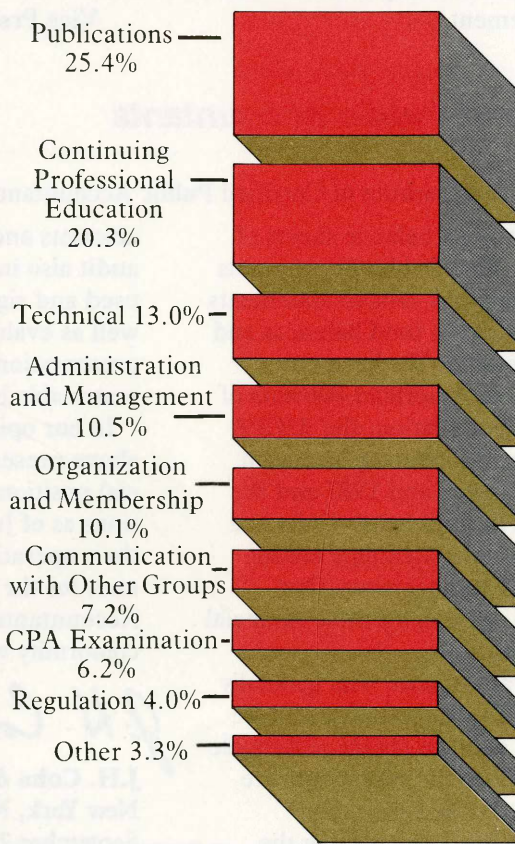
The committee is also reviewing the profession's self-regulation, licensure, and certification processes, as well as the relationship between the Institute and the various organizations involved in these efforts. The tentative target date for the Committee's final report is the fall of 1989.

With the results of the study, the AICPA will be more prepared than ever before to help members serve the public interest today, and to adapt to the challenges of tomorrow.

**REVENUE BY SOURCE**



**EXPENSE BY ACTIVITY**





## Responsibilities for Financial Statements

The following financial statements of the American Institute of Certified Public Accountants, the American Institute of Certified Public Accountants Foundation, the AICPA Benevolent Fund, Inc. and the Accounting Research Association, Inc., were prepared by management of the Institute which is responsible for their reliability and objectivity. The statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Financial information elsewhere in this annual report is consistent with that in the financial statements.

Management is further responsible for maintaining a system of internal accounting controls, designed to provide reasonable assurance that the books and records reflect the transactions of the entities and that its established policies and procedures are carefully followed. Management reviews and modifies the system of internal accounting control to improve its effectiveness and the system is augmented by written policies, the careful selection and training of qualified personnel, and a program of internal audit. Management believes that the system of internal accounting control provides reasonable assurance that assets are safeguarded and that financial information is objective and reliable.

Independent public accountants are engaged to audit the financial statements of the above entities and issue a report thereon. Their audit is conducted in accordance with generally accepted auditing standards which require a review of internal accounting controls and a test of transactions. The Report of Independent Public Accountants follows this statement.

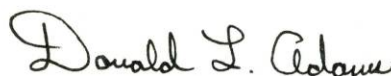
The Board of Directors, through its Audit Committee (comprised of 5 non-management directors), is responsible for providing reasonable assurance that management fulfills its responsibilities in the preparation of the financial statements and in the maintenance of the system of internal accounting control. The Audit Committee annually selects the independent public accountants and submits its selection to the Board of Directors, and then to the Council, for approval. The Audit Committee meets with the management, the independent 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 public accountants and the internal auditor meet with the Audit Committee without management representatives present, to discuss the results of their audits, the adequacy of internal accounting controls, and the quality of financial reporting. These meetings are designed to facilitate private communication between the Audit Committee and both the internal auditor and the independent public accountants.



A. Marvin Strait  
Chairman of the Board



Philip B. Chenok  
President



Donald L. Adams  
Vice President, Finance & Administration (CFO)

## Report of Independent Public Accountants

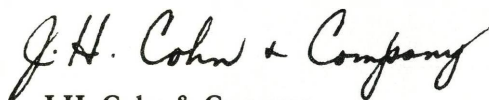
To the Members of the American Institute of Certified Public Accountants:

We have audited the accompanying balance sheets of the American Institute of Certified Public Accountants as of July 31, 1988 and 1987, and the related statements of revenue and expenses, changes in fund balances and cash flows for the years then ended. We have also audited the balance sheets of the American Institute of Certified Public Accountants Foundation, the AICPA Benevolent Fund, Inc. and the Accounting Research Association, Inc. as of July 31, 1988 and 1987 and the related statements of changes in fund balances for the years then ended. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the

amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each of the aforementioned organizations as of July 31, 1988 and 1987, and the results of their operations and the changes in their fund balances and, for the American Institute of Certified Public Accountants, its cash flows for the years then ended in conformity with generally accepted accounting principles.



J.H. Cohn & Company  
New York, New York  
September 2, 1988

	July 31	
	1988	1987
<b>Assets:</b>		
Cash .....	\$ 293,000	\$ 412,000
Marketable securities, at lower of cost or market .....	21,551,000	17,546,000
Accounts receivable (less an allowance for doubtful accounts: 1988, \$395,000; 1987, \$483,000) .....	10,363,000	6,212,000
Inventories .....	2,306,000	2,972,000
Deferred costs and prepaid expenses .....	4,117,000	2,682,000
Furniture, equipment, and leasehold improvements .....	6,459,000	5,550,000
	<u>45,089,000</u>	<u>35,374,000</u>
Funds held for Division for CPA Firms .....	2,327,000	1,930,000
	<u>\$47,416,000</u>	<u>\$37,304,000</u>
 <b>Liabilities and Fund Balances:</b>		
Liabilities and deferred revenue:		
Accounts payable and other liabilities .....	\$ 8,963,000	\$ 7,478,000
Accrued taxes .....	87,000	687,000
Advance dues .....	8,714,000	3,684,000
Unearned revenue from subscriptions and other sources .....	8,814,000	5,453,000
	<u>26,578,000</u>	<u>17,302,000</u>
Funds held for Division for CPA Firms .....	2,327,000	1,930,000
General fund balances .....	18,511,000	18,072,000
	<u>\$47,416,000</u>	<u>\$37,304,000</u>



**American Institute of  
Certified Public Accountants**

**Statement of  
Revenue and Expenses**

	<b>Year Ended July 31</b>	
	<b>1988</b>	<b>1987</b>
<b>Revenue:</b>		
Dues .....	\$24,958,000	\$23,241,000
Publications .....	25,395,000	21,317,000
Continuing professional education .....	20,572,000	17,681,000
CPA examinations .....	7,353,000	6,200,000
Investment and sundry income .....	4,243,000	4,643,000
Conferences .....	2,750,000	1,786,000
	<u>85,271,000</u>	<u>74,868,000</u>
 <b>Expenses (see also Summary of Expenses by Activity):</b>		
Salaries .....	22,624,000	20,834,000
Cost of sales .....	18,475,000	16,685,000
Occupancy .....	6,625,000	5,864,000
Postage and shipping .....	5,835,000	4,825,000
Printing and paper .....	5,213,000	4,645,000
Meetings and travel .....	4,785,000	4,032,000
Personnel costs .....	4,152,000	3,853,000
Promotions and advertising .....	4,127,000	2,410,000
Professional services .....	3,674,000	4,011,000
Commercial services .....	1,949,000	1,173,000
Contributions .....	1,197,000	1,562,000
Equipment rental and maintenance .....	1,041,000	1,125,000
Telephone .....	928,000	807,000
Office and computer supplies .....	927,000	822,000
Fees .....	783,000	677,000
Mailing services .....	725,000	542,000
Income taxes .....	454,000	700,000
Other .....	1,298,000	1,106,000
	<u>84,812,000</u>	<u>75,673,000</u>
 <b>Excess (deficiency) of revenue over expenses .....</b>	 <u><b>\$ 459,000</b></u>	 <u><b>\$ (805,000)</b></u>

**American Institute of  
Certified Public Accountants**

**Summary of  
Expenses by Activity**

	Year Ended July 31	
	1988	1987
CPA examinations .....	\$ 5,262,000	\$ 5,276,000
Publications:		
Produced for sale .....	16,588,000	14,346,000
Distributed to members and others .....	4,978,000	4,559,000
Continuing professional education .....	17,185,000	16,564,000
Conferences .....	2,225,000	1,233,000
Technical:		
Accounting and review services .....	24,000	54,000
Accounting standards .....	903,000	886,000
Auditing standards .....	1,704,000	1,807,000
Federal taxation .....	2,106,000	1,467,000
Management advisory services .....	666,000	667,000
Computer services .....	374,000	46,000
International practice .....	540,000	469,000
Technical assistance to members .....	1,962,000	1,567,000
Library .....	1,226,000	1,152,000
NAARS program .....	514,000	533,000
Financial Accounting Foundation contribution .....	510,000	477,000
Accountants' legal liability .....	431,000	370,000
Fraud commission .....	66,000	679,000
Regulation:		
Ethics and trial board .....	1,366,000	1,074,000
State legislation .....	253,000	306,000
Division for CPA Firms .....	756,000	751,000
Quality control programs .....	1,044,000	842,000
Organization and membership:		
Board, council and annual meetings .....	3,197,000	1,871,000
Nominations and committee appointments .....	124,000	111,000
Communications with members .....	410,000	420,000
Membership services .....	2,636,000	1,725,000
Special organizational studies .....	2,171,000	1,189,000
Communications with other groups:		
Public relations .....	1,736,000	1,471,000
State societies .....	186,000	161,000
Universities .....	611,000	589,000
Federal government .....	3,582,000	2,961,000
Assistance programs for minority students .....	598,000	589,000
General management .....	8,878,000	9,461,000
	<u>\$84,812,000</u>	<u>\$75,673,000</u>



**American Institute of  
Certified Public Accountants**

**Statement of Changes  
in Fund Balances**

	Year Ended July 31	
	1988	1987
<b>General Fund:</b>		
Fund balance, beginning of year .....	\$18,072,000	\$18,877,000
Excess (deficiency) of revenue over expenses .....	459,000	(805,000)
Unrealized loss on investments .....	(20,000)	—
Fund balance, end of year .....	<u>\$18,511,000</u>	<u>\$18,072,000</u>

**American Institute of  
Certified Public Accountants**

**Statement of Cash Flows**

	Year Ended July 31	
	1988	1987
<b>Increase (Decrease) in Cash:</b>		
<b>Cash Flows from Operating Activities:</b>		
Cash received from members and customers .....	\$ 86,820,000	\$ 68,454,000
Interest and dividends received .....	1,374,000	1,402,000
Cash paid to suppliers and employees .....	(82,124,000)	(71,225,000)
Income taxes paid .....	(1,054,000)	(928,000)
Net cash provided by (used in) operating activities .....	<u>5,016,000</u>	<u>(2,297,000)</u>
<b>Cash Flows from Investing Activities:</b>		
Payments for purchase of equipment .....	(2,239,000)	(1,676,000)
Payments for purchase of marketable securities .....	(38,868,000)	(17,578,000)
Proceeds from sale of marketable securities .....	35,972,000	21,753,000
Net cash provided by (used in) investing activities .....	<u>(5,135,000)</u>	<u>2,499,000</u>
Net increase (decrease) in cash .....	(119,000)	202,000
Cash, beginning of year .....	412,000	210,000
Cash, end of year .....	<u>\$ 293,000</u>	<u>\$ 412,000</u>
<b>Reconciliation of excess (deficiency) of revenue over expenses to net cash provided by operating activities:</b>		
Excess (deficiency) of revenue over expenses .....	\$ 459,000	\$ (805,000)
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided by operating activities:		
Depreciation and amortization .....	2,935,000	2,748,000
Gain on sale of marketable securities .....	(1,129,000)	(2,090,000)
Amortization of subscription revenues .....	(3,123,000)	(3,008,000)
Provision for losses on accounts receivable .....	188,000	232,000
Provision for obsolete inventories .....	600,000	833,000
(Increase) decrease in:		
Accounts receivable .....	(4,339,000)	(299,000)
Inventories .....	66,000	(423,000)
Deferred costs and prepaid expenses .....	(3,040,000)	(746,000)
Increase (decrease) in:		
Accounts payable and other liabilities .....	1,485,000	1,104,000
Accrued taxes .....	(600,000)	(228,000)
Advance dues .....	5,030,000	(1,017,000)
Unearned revenue from subscriptions and other sources .....	6,484,000	1,402,000
Total adjustments .....	<u>4,557,000</u>	<u>(1,492,000)</u>
Net cash provided by (used in) operating activities .....	<u>\$ 5,016,000</u>	<u>\$ (2,297,000)</u>

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

	American Institute of Certified Public Accountants Foundation		AICPA Benevolent Fund, Inc.		Accounting Research Association, Inc.	
	1988	1987	1988	1987	1988	1987

## Balance Sheet—July 31

### Assets:

Cash .....	\$ 1,000	\$ 5,000	\$ 5,000	\$ 3,000	\$ 4,000	\$ 119,000
Marketable securities at lower of cost or market* .....	2,453,000	2,287,000	1,490,000	1,478,000	1,150,000	830,000
Notes and mortgages receivable (net of allowance for doubtful collections 1988, \$52,000; 1987, \$54,000) .....	—	—	272,000	230,000	—	—
Dues receivable .....	—	—	—	—	737,000	873,000
Other receivables .....	30,000	32,000	21,000	16,000	15,000	8,000
	<u>\$2,484,000</u>	<u>\$2,324,000</u>	<u>\$1,788,000</u>	<u>\$1,727,000</u>	<u>\$1,906,000</u>	<u>\$1,830,000</u>

### Liabilities and Fund Balances:

#### Liabilities and deferred revenue:

Accounts payable .....	\$ 46,000	\$ 6,000	\$ —	\$ —	\$ 243,000	\$ 248,000
Advance dues .....	—	—	—	—	1,217,000	1,152,000
Scholarships payable .....	344,000	320,000	—	—	—	—
	<u>390,000</u>	<u>326,000</u>	<u>—</u>	<u>—</u>	<u>1,460,000</u>	<u>1,400,000</u>

#### Fund Balances:

General .....	32,000	29,000	1,788,000	1,727,000	446,000	430,000
Library .....	906,000	899,000	—	—	—	—
John L. Carey Scholarship Fund ....	389,000	361,000	—	—	—	—
Accounting Education Fund for Disadvantaged Students .....	753,000	696,000	—	—	—	—
E.W. Sells Award Fund .....	14,000	13,000	—	—	—	—
	<u>2,094,000</u>	<u>1,998,000</u>	<u>1,788,000</u>	<u>1,727,000</u>	<u>446,000</u>	<u>430,000</u>
	<u>\$2,484,000</u>	<u>\$2,324,000</u>	<u>\$1,788,000</u>	<u>\$1,727,000</u>	<u>\$1,906,000</u>	<u>\$1,830,000</u>

### \*NOTE:

Marketable securities at market (m) or cost (c) .....	<u>\$2,456,000</u> <sup>(c)</sup>	<u>\$2,447,000</u> <sup>(m)</sup>	<u>\$1,492,000</u> <sup>(c)</sup>	<u>\$1,669,000</u> <sup>(m)</sup>	<u>\$1,151,000</u> <sup>(c)</sup>	<u>\$ 931,000</u> <sup>(m)</sup>
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## 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.	
	1988	1987	1988	1987	1988	1987

### Additions:

Investments and miscellaneous income .....	\$ 137,000	\$ 134,000	\$ 88,000	\$ 85,000	\$ 96,000	\$ 43,000
Gain on sale of securities .....	75,000	131,000	112,000	168,000	59,000	79,000
Contributions/dues .....	433,000	397,000	153,000	116,000	2,819,000	2,794,000
	<u>645,000</u>	<u>662,000</u>	<u>353,000</u>	<u>369,000</u>	<u>2,974,000</u>	<u>2,916,000</u>

### Deductions:

Contributions/scholarships .....	541,000	525,000	—	—	2,643,000	2,532,000
Assistance to members and families	—	—	257,000	224,000	—	—
FASB subscription service .....	—	—	—	—	163,000	200,000
Other .....	5,000	4,000	33,000	25,000	151,000	159,000
	<u>546,000</u>	<u>529,000</u>	<u>290,000</u>	<u>249,000</u>	<u>2,957,000</u>	<u>2,891,000</u>
Increase in fund balances .....	99,000	133,000	63,000	120,000	17,000	25,000
Fund balances, beginning of year ....	1,998,000	1,865,000	1,727,000	1,607,000	430,000	405,000
Unrealized loss on investments .....	(3,000)	—	(2,000)	—	(1,000)	—
Fund balances, end of year .....	<u>\$2,094,000</u>	<u>\$1,998,000</u>	<u>\$1,788,000</u>	<u>\$1,727,000</u>	<u>\$ 446,000</u>	<u>\$ 430,000</u>

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



## 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 followed by the American Institute of Certified Public Accountants (Institute) and, if applicable, the American Institute of Certified Public Accountants Foundation (Foundation), the AICPA Benevolent Fund, Inc. (Benevolent Fund) and the Accounting Research Association, Inc. (ARA) follows:

- Assets, liabilities, revenue and expenses are recognized on the accrual basis.
- The Institute adopted the provisions of FASB Statement No. 95, "Statement of Cash Flows," for the year ended July 31, 1988 and retroactively applied it to 1987.
- Marketable securities are stated at the lower of aggregate cost or market. If market value declines below cost, the resulting write-down is charged directly against the fund balance. Gains and losses on the sale of securities are included in operating results. Short-term, highly liquid investments are treated as investments rather than cash equivalents and are included in marketable securities.
- Inventories are stated at the lower of cost or market. A monthly moving average method is used for determining inventory cost.
- 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, which support the Financial Accounting Standards Board (FASB) and Governmental Accounting Standards Board (GASB), are assessed on a calendar year basis and recognized as additions to the fund balance in equal monthly amounts during each calendar year.
- Receivables for subscriptions are recorded when billed to customers, net of 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 recognized over the life of the subscription, and 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.

- The Institute accounts for pension costs in accordance with the provisions of FASB Statement No. 87, "Employers' Accounting for Pensions," (FAS No. 87).
- Unallocated general management expense is reported as a separate activity in the Summary of Expenses by Activity.
- Certain expenses for 1987 were reclassified to conform to the 1988 presentation.

## Notes to Financial Statements July 31, 1988 and 1987

### 1. Marketable Securities

Marketable securities, at cost (net of unrealized loss of \$20,000 at July 31, 1988), consist of:

	1988	1987
U.S. Treasury bonds and notes . . . .	\$ 9,816,000	\$ 4,898,000
Bonds, notes, and money market funds . . . . .	11,735,000	5,323,000
Equities . . . . .	—	7,325,000
	<u>\$21,551,000</u>	<u>\$17,546,000</u>
Market value . . . . .	<u>\$21,551,000</u>	<u>\$20,446,000</u>

### 2. Inventories

Inventories at July 31 consist of:

	1988	1987
Paper and material stock . . . . .	\$ 615,000	\$ 614,000
Publications in process . . . . .	412,000	556,000
Printed publications and course material . . . . .	1,279,000	1,802,000
	<u>\$2,306,000</u>	<u>\$2,972,000</u>

### 3. Furniture, Equipment, and Leasehold Improvements

Furniture, equipment, and leasehold improvements at July 31 consist of:

	1988	1987
Furniture and equipment . . . . .	\$ 8,849,000	\$ 6,890,000
Leasehold improvements . . . . .	4,687,000	4,482,000
	<u>13,536,000</u>	<u>11,372,000</u>
Less accumulated depreciation and amortization . . . . .	<u>7,077,000</u>	<u>5,822,000</u>
	<u>\$ 6,459,000</u>	<u>\$ 5,550,000</u>

Depreciation of furniture and equipment and amortization of leasehold improvements for the years ended July 31, 1988 and 1987 were \$1,330,000 and \$1,058,000.

#### 4. Taxes

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

#### 5. Lease Commitments

Minimum rental commitments on noncancellable real estate and equipment leases in effect as of July 31, 1988 were \$29,949,000. This amount does not include future escalations for real estate taxes and building operating expenses. Minimum rental commitments are:

##### Year Ended July 31

1989 .....	\$ 3,959,000
1990 .....	3,838,000
1991 .....	3,705,000
1992 .....	3,691,000
1993 .....	3,525,000
Years subsequent to 1993 .....	11,231,000
	<u>\$29,949,000</u>

Rental expense for the years ended July 31, 1988 and 1987 were \$5,824,000 and \$5,503,000.

#### 6. Retirement Plan

The Institute 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 salary as defined by the plan. The Institute'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 components of the net pension expense for the years ended July 31 were:

	<u>1988</u>	<u>1987</u>
Service cost—benefits earned during the year .....	\$ 925,000	\$ 822,000
Interest cost on projected benefit obligation .....	952,000	880,000
Return on plan assets:		
Actual .....	75,000	(3,414,000)
Deferred .....	(1,658,000)	1,991,000
Net amortization of unrecognized net asset .....	(274,000)	(274,000)
	<u>\$ 20,000</u>	<u>\$ 5,000</u>

Funded status of the plan:

	<u>May 1</u>	
	<u>1988</u>	<u>1987</u>
Actuarial present value of projected benefit obligation, based on employment service to date and current salary levels:		
Vested benefits .....	\$ 9,328,000	\$ 7,971,000
Non-vested benefits .....	372,000	699,000
Additional amounts related to projected salary increases .....	4,166,000	4,265,000
Projected benefit obligation .....	<u>\$13,866,000</u>	<u>\$12,935,000</u>
Assets available for benefits:		
Plan assets at fair value .....	\$20,390,000	\$20,966,000
Accrued pension cost .....	20,000	5,000
	<u>\$20,410,000</u>	<u>\$20,971,000</u>
Assets in excess of projected benefit obligation:		
Unamortized portion of amount existing at date FAS No. 87 was adopted ...	\$ 4,255,000	\$ 4,529,000
Amount arising subsequent to adoption of FAS No. 87 .....	2,289,000	3,507,000
	<u>\$ 6,544,000</u>	<u>\$ 8,036,000</u>

The amount of assets in excess of projected benefit obligation on May 1, 1985, the date on which FAS No. 87 was adopted, is being recognized in determining pension expense over 18.5 years. The discount rate used to determine the actuarial present value of the projected benefit obligation was 8% as of May 1, 1988 and 7½% as of May 1, 1987. The expected long-term rate of return on plan assets used in determining net pension expense for fiscal years ended July 31, 1988 and 1987 was 9½%. The assumed rate of increase in future compensation levels was 5½% and 5% for 1988 and 1987.

The Institute also sponsors a 401(k) 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 in amounts equal to a certain percentage of employee contributions. The cost of this plan was \$199,000 and \$196,000 for 1988 and 1987.



## 7. 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.

Some assets are committed to specific activities:

*Foundation:* 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 enhance the accounting faculty of minority universities.

*Accounting Research Association (ARA):* The ARA makes an annual best efforts commitment to raise funds for the Financial Accounting Standards Board (FASB) from sources within the accounting profession. The commitment is \$2,340,000 for the calendar year 1988.

The ARA also makes a best efforts commitment to raise funds for support of the Governmental Accounting Standards Board (GASB). The commitment is \$460,000 for the calendar year 1988. It is anticipated the ARA will continue to support the FASB and GASB.

## 8. Contribution 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 FASB.

## 9. Division for CPA Firms

The Institute acts as custodian of the cash and marketable securities of the Division for CPA Firms (Division). The total amounts involved are shown on the Institute's balance sheet as offsetting assets and liabilities.

The balances at July 31, 1988 were:

	Cash	Marketable Securities	Total
Private Companies			
Practice Section . . . . .	\$ 8,000	\$ 570,000	\$ 578,000
SEC Practice Section . . . . .	9,000	1,740,000	1,749,000
	<u>\$17,000</u>	<u>\$2,310,000</u>	<u>\$2,327,000</u>

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

Balance Sheet	Year Ended July 31, 1988	
	Private Companies Practice Section	SEC Practice Section
<b>Assets:</b>		
Cash . . . . .	\$ 8,000	\$ 9,000
Marketable securities at lower of cost or market* . . . . .	570,000	1,740,000
Dues and other receivables . . . . .	86,000	59,000
	<u>\$664,000</u>	<u>\$1,808,000</u>
<b>Liabilities and Fund Balances:</b>		
Accounts payable . . . . .	\$ 65,000	\$ 114,000
Advance dues . . . . .	205,000	587,000
Fund balances . . . . .	394,000	1,107,000
	<u>\$664,000</u>	<u>\$1,808,000</u>
<b>*NOTE:</b>		
Marketable securities at cost	<u>\$570,000</u>	<u>\$1,741,000</u>

Statement of Changes in Fund Balances	Year Ended July 31, 1988	
	Private Companies Practice Section	SEC Practice Section
<b>Additions:</b>		
Dues . . . . .	\$460,000	\$1,364,000
Gain on sale of securities . . . . .	17,000	53,000
Other . . . . .	48,000	118,000
	<u>525,000</u>	<u>1,535,000</u>
<b>Deductions:</b>		
Expenses of Public Oversight Board:		
Salaries and fees . . . . .	—	758,000
Administrative expenses . . . . .	—	361,000
	—	1,119,000
Public relations program . . . . .	145,000	145,000
Printing . . . . .	84,000	23,000
Membership directory . . . . .	13,000	13,000
Legal fees . . . . .	—	13,000
Administrative and other expenses . . . . .	112,000	41,000
	<u>354,000</u>	<u>1,354,000</u>
Net increase in funds . . . . .	171,000	181,000
Fund balances, beginning of year . . . . .	223,000	927,000
Unrealized loss on investments . . . . .	—	(1,000)
Fund balances, end of year . . . . .	<u>\$394,000</u>	<u>\$1,107,000</u>

In addition to the expenses shown above, the Institute incurred expenses during the years ended July 31, 1988 and 1987 in support of the Division and in connection with related quality control programs. These expenses are included in the accompanying Summary of Expenses by Activity.

### **Officers and Board of Directors 1987-88**

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**AICPA**

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