1989

AICPA annual report 1988-89; Integrity in action

American Institute of Certified Public Accountants

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Integrity in Action

1988-1989
Annual Report

"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."

Contents

MESSAGE TO AICPA MEMBERS

If actions speak louder than words, then our actions are echoing across the country. Enhancing integrity in business, as well as in our own profession, is a priority for the American Institute of CPAs. During the past year, we have supported legislation in the interests of the public and the profession, urged federal fiscal reform, and implemented a standard of professional conduct that can serve as a model for other organizations. In all our efforts, we have spoken out for professional ethics and urged increased responsibility to the public good. And our voices have been heard.

Our voices have been heard in our nation's capital.

In 1988–89, we helped win enactment of the Taxpayer's Bill of Rights. We worked for reform of what has become misguided civil RICO legislation—and have gained many allies in that struggle. And we continued to demand a rethinking and reevaluation of federal fiscal management.

In testimony before Congress, we underscored the fact that long before the thrift crisis became front-page news, the accounting profession consistently cautioned regulators and Congress against masking the true dimensions of the Savings and Loan crisis.

Our voices have been heard on behalf of small business.

In fighting for the rights of small businesses, the Institute has also sought repeal or modification of tax code provisions relating to employer health and welfare plans, lobbied to reform the civil tax penalty structure, and advocated tax simplification.

Our voices have been heard in board rooms across the country.

We were strong catalysts in the formation of the Treadway Commission and its subsequent actions. As a result of the Commission's initiatives, more and more companies are adopting written codes of conduct and evaluating the need for audit committees and separate internal audit functions. These moves, along with other responses to Treadway recommendations, will directly impact the quality of internal controls and management of the nation's public companies.

Our voices have been heard by the American people.

In the past year, we have consistently demonstrated CPAs' commitment to the public interest. Through our actions and our communications, the public is becoming better informed about what we can—and cannot—do.

Now, we must look to the future.

As CPAs, we are in the ideal position to make a difference in the quality of American business. But to accomplish this mission, we must face the challenges before us. How will we anticipate and respond to a rapidly evolving technology? What financial and informational needs will surface in a changing economy? How will increased competitiveness affect the CPA's ability to perform? And what remedies can we offer to a society in dire need of fiscal integrity and professional ethics?

The Institute's newly developed strategic plan is designed to help bring answers to those questions within our reach. In the coming years, this plan will help us to preserve the CPA's leadership role in serving the public good.

Now, more than ever, we must focus on translating our commitment to quality into actions—actions that speak far louder than words.

Philip B. Chenok
President

Robert L. May
Chairman

Strategy in Action

Last year, we set an ambitious goal for ourselves. By voting for the Plan to Restructure Professional Standards, we committed ourselves to setting, monitoring, and abiding by the highest standards of professional conduct. In 1988–89, we met that commitment.

Under the new membership requirements adopted in January 1988, all members in public practice must participate in an Institute-approved practice-monitoring program. As of the date of this report, 45,000 firms had enrolled in an approved practice-monitoring program—including over 4,800 firms in the Division for CPA Firms. By the end of 1989, an estimated 200 public-practice units will have participated in our pilot quality review program.

Significantly, 44 state CPA societies have agreed to full participation and four more have elected partial participation in the administration of quality reviews. These numbers indicate strong state society support for the profession's efforts to maintain and improve the quality of CPA practices.

Additional steps taken to implement the quality review program include the following:

- A sophisticated computer system has been installed to schedule reviews and monitor their progress. State societies may now access the system using modems provided by the AICPA.
- Standards have been issued for performing and reporting on quality reviews. Programs, guidelines, and checklists for reviewers and reviewed firms are now available through a looseleaf subscription service.
- Training programs have been developed, with state organization cooperation, for reviewers and reviewed firms in all parts of the country.

Dale E. Rafal, who was promoted to Vice President of Quality Review, will continue to administer the development of the new profession-wide quality review program.

In addition, we are working with the National Association of State Boards of Accountancy (NASBA) to ensure maximum efficiency of our quality-review program and to eliminate any duplication of the positive enforcement programs of state boards of accountancy.

Another key initiative of the Plan to Restructure is the creation of new entry-level and continuing educational requirements. Beginning in 1990, members in public practice will have to complete 120 hours of continuing education every three years, with a minimum of 20 hours per year. Members who are not in public practice will need to complete 60 hours during the first three-year reporting cycle, with a minimum of 10 hours per year. In subsequent three-year periods, these members will need 90 hours total, with a 15-hour annual minimum.

At present, a special task force is writing the policies and procedures needed to implement these new CPE requirements. This task force will also identify courses of specific interest to members in industry, government and education, as well as in other fields of employment.

To reinforce the Institute's membership requirement for 150-hours of academic education after the year 2000, the AICPA and state CPA societies have fought for and won legislative enactment of the 150-hour educational requirement in a total of eight states: Alabama, Florida, Hawaii, Montana, Tennessee, Texas, Utah, and West Virginia. Under the guidance of Rick Elam, newly appointed Vice President of Education, we expect that the legislative momentum will continue to build in the coming year.

Another Vote For Excellence

The adoption of the first six proposals of the Plan to Restructure does not mean that our work is over. Far from it. The challenge to encourage adherence to the highest professional standards continues. This year, we are urging members to support a bylaw change that would result in all firms that have AICPA members and audit public companies joining the SEC Practice Section (SECPS). Although this proposal affects only a small portion of our membership, it is, in reality, a profession-wide, self-regulatory issue. And it once again warrants your enthusiastic support.

The Securities and Exchange Commission (SEC) has proposed its own program to monitor auditors of public companies. If the AICPA membership does not endorse self-regulation by requiring participation in the SECPS, the SEC may well implement its proposed program—

adding new and inappropriate requirements for public company auditors. In addition, the SEC proposal would affect industry members with public companies by providing the SEC with greater access to certain client information contained in peer-review workpapers.

The AICPA asks you to choose excellence through self-regulation by voting "yes" on the SECPS membership ballot in November. Any other alternative is less than what the profession deserves—and less than what the public expects of us.

A Voice in the Nation's Capital

This year, the voice of the AICPA came through loud and clear in our nation's capital. Under the leadership of B.Z. Lee, Deputy Chairman of Federal Affairs, our Washington office worked to maintain and improve our dealings with Congress, various governmental agencies, state CPA societies, and other organizations. As a result, we have increased our effectiveness in representing the accounting profession and in serving our members and the public. And we are meeting one of our strategic goals: enhancing the Institute's political strength.

To further our efforts in this area, we have appointed a new Vice President of Legislative Affairs, J. Thomas Higginbotham. Mr Higginbotham will direct the AICPA's legislative activities, including formulating strategies and implementing our political programs.

Responding to Scrutiny

In February 1989, the General Accounting Office (GAO) issued a controversial report on audit quality based on a review of 11 audits of failed Savings and Loan Institutions. In this document, the GAO concluded that in six instances, the audits did not adequately report the S&L's financial or internal-control difficulties and were not conducted in accordance with professional standards.

The AICPA immediately responded to this report by standing up for the profession's history of integrity with respect to the S&L industry. In testimony before the House Banking Committee,

The AICPA's 12 Strategic Thrusts for the Future

In striving to strengthen our profession's integrity, reputation and influence, the AICPA will:

1. Assist members as they expand the scope of their activities and work in specialized areas;
2. Play a more effective role in the accounting standard-setting process;
3. Implement the Plan to Restructure Professional Standards and otherwise enhance quality work;
4. Expand the communications program;
5. Work aggressively to attract qualified people into the profession and the Institute, and to retain them after they enter;
6. Actively seek to improve the quality of accounting education and promote the availability of quality accounting programs;
7. Improve the development and delivery of programs and services to better serve the needs of all membership groups;
8. Enhance the position of the Institute and strengthen the CPA designation;
9. Enhance programs that give the Institute more political strength;
10. Develop a major focus on the technological needs of members;
11. Work to further limit members' liability; and
12. Work to implement appropriate recommendations of the National Commission on Fraudulent Financial Reporting.

These thrusts have been developed by the AICPA Strategic Planning Committee and are contained in "Strategic Thrusts for the Future," first ed., October 1988.

AICPA President Philip Chenok declared that the accounting profession "has been one of the few consistent voices urging caution to the sometimes desperate attempts by regulators and even Congress to mask the true dimensions" of the Savings and Loan crisis.

Because of the AICPA's role and influence in S&L auditing, the GAO recommended that the AICPA inform its members of the results of the GAO review, as well as revise the AICPA accounting and auditing guide for savings and loan associations. The AICPA promptly acted on both recommendations.

Just as important, the Institute carefully monitored legislation drafted in response to the S&L crisis to ensure that the accounting profession was treated fairly. Thanks to our aggressive efforts, we were able to obtain some significant modifications on this fast-moving legislation, which limited banking agencies' enforcement powers over CPAs, and eliminated separate mandatory audit provisions including reports on internal control and compliance with laws and regulations.

Commitment to Audit Quality

At the request of Representative John D. Dingell (D-MI), Chairman of the Subcommittee on Oversight and Investigation of the House Energy and Commerce Committee, the GAO has issued a report on the implementation of the recommendations of the Treadway Commission. The report states that the public accounting profession has "taken positive actions which demonstrate a commitment to addressing concerns about audit quality and the accuracy and reliability of financial disclosures." In releasing the report, Chairman Dingell said, "The GAO found that the accounting profession has made substantial progress in addressing the Treadway Commission's proposals, and the profession deserves credit for that."

Working to Limit Liability

Tort reform continues to be one of the Institute's primary strategic thrusts. In particular, the civil aspects of the Racketeer Influenced and Corrupt Organizations Act (RICO), while initially ignored, have in recent years led to a large number of lawsuits—with claims against CPA firms and other legitimate businesses totaling billions of dollars. A broad coalition of business and labor organizations is working to end this litigation abuse.

In the 101st Congress, hearings were held on two companion RICO reform bills. The AICPA supports passage of both bills and hopes that Congress will take positive action on civil RICO reform sometime this year.

The AICPA is also working with the state societies 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. While no new "privity" bills were passed this year, efforts to promote adoption of such bills continue in several states. More than 50 percent of the states have enacted some type of joint and several liability reforms since the Institute's effort began.

The AICPA also continues to file "friend of the court" briefs where a state's highest court has not addressed the privity issue.

Striving for a Fairer Tax System

This year, the public and the AICPA scored a major victory with enactment of the "Taxpayer's Bill of Rights." This legislation will improve the balance between the rights of taxpayers and the authority of the Internal Revenue Service (IRS) in administering tax laws and regulations.

Through the Tax Division, the AICPA continued to provide input and testimony to Congress on other relevant tax issues. For example, the Institute sought repeal or modification of the provisions of Internal Revenue Code Section 89, which establishes mandatory non-discrimination rules for employer health and welfare plans. The provision is a major concern to all businesses with such plans because of the burdens of compliance testing and the onerous penalties for non-compliance.

Legislation was introduced early in the 101st Congress to repeal Section 89, but its passage is considered unlikely. The AICPA therefore suggested modifications, including a provision that would make it unnecessary for employers to meet onerous compliance tests. New legislation has been introduced to modify Section 89, based largely on the Institute's recommendations. We expect reform legislation to be enacted later this year.

The Institute also offered testimony on the issue of corporate takeovers. Tax Division Executive Committee Chairman Arthur Hoffman testified that the AICPA opposes using tax law as a vehicle to address problems with highly leveraged buyouts and other debt-ladened corporate transactions, noting that tax law has frequently

SOURCES AND OCCUPATIONS OF AICPA MEMBERSHIP						
	1979	1981	1983	1985	1987	1989
Total AICPA Membership	149,314	173,900	201,764	231,333	254,910	286,358
Public Accounting	55.0%	53.5%	53.0%	51.0%	47.6%	45.8%
Business & Industry	34.2	36.1	36.9	38.8	39.5	39.9
Education	3.0	2.8	2.7	2.7	2.8	2.7
Government	3.4	3.3	3.3	3.3	3.4	3.7
Retired & Miscellaneous	4.4	4.3	4.1	4.2	6.7	7.9
Membership in Public Practice	82,141	93,082	106,870	117,850	121,349	131,014
Firms with one member	23.5%	21.8%	22.6%	23.9%	25.6%	23.8%
Firms with 2 to 9 members	32.3	34.5	34.0	33.7	34.0	33.8
Firms with 10 or more members, except the	12.6	14.2	15.0	15.1	15.5	17.3
25 largest firms	31.6	29.5	28.4	27.3	24.9	25.1

proven inefficient and ineffective in curing such problems.

On several occasions during the past four years, the AICPA has informed Congress, the IRS, and the Treasury that complexity in the tax law is reaching unreasonable levels. This is caused by both the frequency of change and by the enactment of provisions based more on protecting revenue than on sound tax policy.

In accordance with the Institute's strategic plan, we have established a subcommittee on tax simplification and efficiency. Its mission is to promote an enhanced awareness of the need to simplify future tax legislation and regulatory activity; to identify specific items in existing tax law which should be eliminated; and to work with Congress and the Treasury on implementing simplification proposals.

Working to Revise Civil Tax Penalties

In the past ten years, a proliferation of civil tax penalties has created a system which is complex, confusing, uncoordinated, and often duplicative; five Congressional hearings have been held on the need for revisions to the civil tax-penalty provisions.

After Institute testimony before the Oversight Subcommittee of the House Ways and Means Committee, the AICPA and the IRS were invited to join a task force to develop legislation to reform the tax-penalty structure. A series of six half-day roundtables, held during April and May, attracted members from the Oversight Subcommittee plus representatives from the AICPA, IRS, Treasury, and the Joint Tax Committee. All participants agreed that this collegial approach to developing legislation was a landmark in good government.

The full Ways and Means Committee has approved legislation which deals with such matters as accuracy and delinquency penalties, as well as with penalties for failure to file correct information returns.

Federal Financial Management

The AICPA is calling for improvement in the way the federal government manages its financial affairs. Over the past year, 48 state CPA societies have endorsed the concept and have joined in the Institute's efforts on this public-policy issue. A special task force plans to present its recommended solutions later this year at a colloquium with representatives of Congress, the Administration, the GAO, and the accounting profession.

Working with State Societies

While the AICPA is very concerned about federal legislative affairs, it also recognizes the significance of legislative activities in the 50 state capitals. Institute staff provides issue-briefs and other relevant status reports to keep state societies updated on such issues as changes to accountancy statutes, financial planner/investment adviser legislation, sales tax on professional services, state "taxpayer's bill of rights," and tort reform. We also offer technical-review services on proposed or potential legislation, as well as recommendations for legislative strategy.

The Institute is also striving to improve its communications with state societies on federal issues. We sponsored a Washington Campus program for state CPA society executives in December 1988 to provide an inside look at how Washington really works. In addition, we continue to sponsor a Congressional Breakfast Program with state societies as a means of enhancing relations with Congress.

Resolving Litigation Matters

In March 1989, the Federal Trade Commission (FTC) gave tentative approval to a proposed order modifying the Institute's rules regarding contingent fees, commissions, and referral fees. Developed by the FTC staff and AICPA representatives after years of difficult negotiation, the agreement stipulates that the AICPA can no longer prohibit members from accepting commissions or contingent fees from non-attest clients. However, the proposal still permits the Institute to prohibit members from accepting commissions and contingent fees from clients for whom they perform attest services—a step which will protect third parties who rely on our independence and objectivity. For purposes of the agreement, "attest services" include compilation reports on which third-party reliance is reasonably expected.

Furthermore, the AICPA can require members to inform clients if they are accepting a referral fee or commission for specific products or services. The proposed order also allows the AICPA to prohibit advertising or solicitation by false, misleading, or deceptive statements. A period of public comment on the proposal ended on June 5, 1989, and the FTC is now developing a final order.

As the Institute makes steady progress in implementing the Plan to Restructure, it also continues to work toward resolving a lawsuit initiated by five AICPA members in January 1988. These individuals sued not only to cause the Institute to reballot the six proposals of the Plan to Restructure, but also sued the Board of Directors for actual and exemplary damages. The court granted the Institute's motion to dismiss the money elements of the complaint, but denied the Institute's motion to dismiss the reballot action on the basis that there are factual allegations which made a pretrial dismissal inappropriate. The Institute will therefore proceed to pretrial discovery.

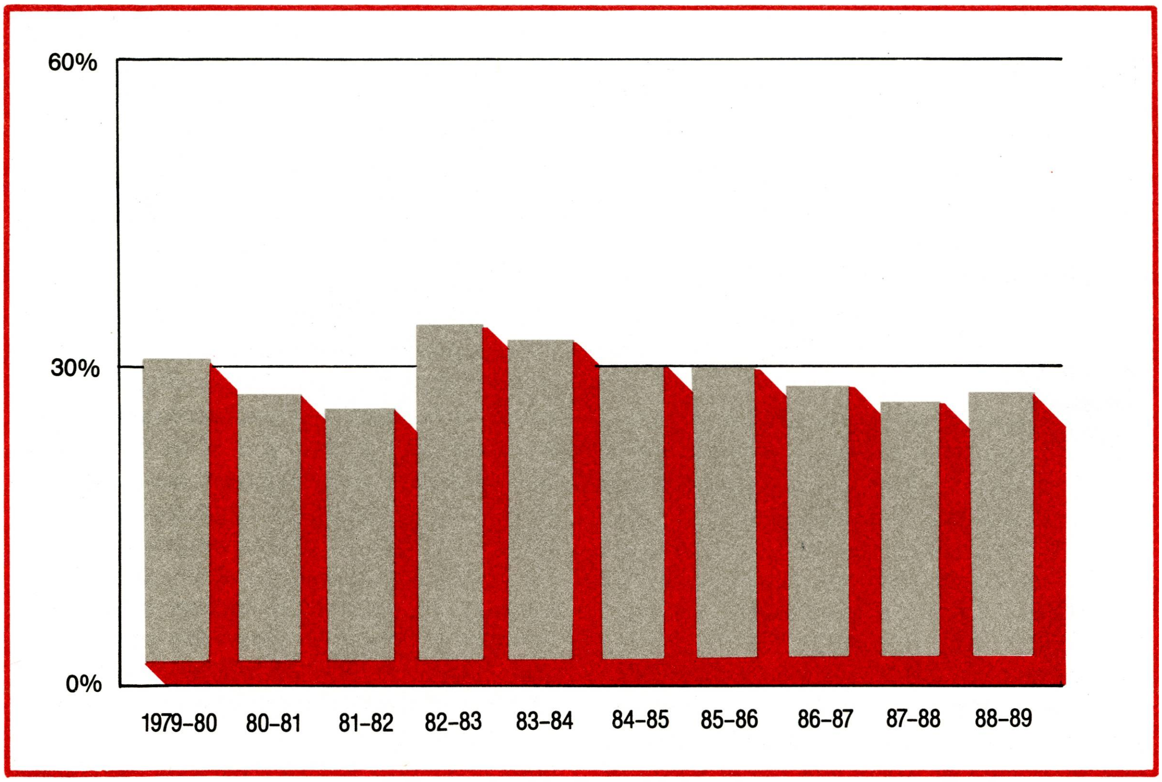
Accounting Standards Initiatives

As a part of its strategic plan, the Institute has become more active in issuing timely guidance on matters not being addressed by the Financial Accounting Standards Board (FASB). Specifically, the AICPA Accounting Standards Division initiated projects on accounting by entities in bankruptcy, accounting for computer-software revenue, accounting by general and limited partnerships, accounting for advertising costs, and accounting issues related to the recognition of interest income.

The Division also launched an aggressive program designed to study ways of maintaining the relevance, reliability, and cost-effectiveness of financial reporting.

New Developments in Auditing Standards

During the past year, the Auditing Standards Division continued to devote its resources to educating members about the applicability of new and existing accounting standards. Crisscrossing the country, Auditing Standards Board (ASB) members and AICPA staff presented several day-long strategic briefings to help practitioners implement Statements on Auditing Standards (SASs) Nos. 53 through 61. They also wrote a series of articles for the *Journal of Accountancy* on these SASs. The articles have been compiled in a booklet titled, "Implementing the Expectation Gap Auditing Standards."



DUES REVENUE AS A PERCENT OF EXPENSES

Since a number of new auditing statements introduced new terminology, concepts and procedures, the ASB unified the existing SASs with SAS Nos. 53-62 in the *1989 Codification of Statements on Auditing Standards*. Also introduced this year was the *User's Guide to Understanding Audits and Auditor's Reports*, which discusses the new auditor's report as mandated by SAS No. 58.

The ASB also responded to concerns in a GAO study indicating a large number of substandard governmental audits by CPAs. SAS No. 63, "Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance," will help CPAs comply with the GAO's "Government Auditing Standards," and the Single Audit Act of 1984.

Finally, after considering recommendations in the *Report of the National Commission on Fraudulent Financial Reporting*, the AICPA appointed three public members to the ASB's Planning Committee: Barbara H. Franklin, former AICPA board member and an audit committee member of six major corporations; Larry P. Scriggins, an attorney specializing in corporate and securities law; and Stephen A. Zeff, a former President of the American Accounting Association and currently a professor of accounting at Rice University.

Reaching Around the Globe

Recognizing the increasing international activities of the business and financial communities, the AICPA has stepped up its involvement with the International Federation of Accountants (IFAC) and the International Accounting Standards Committee (IASC).

The AICPA continued to be represented on the Council of IFAC and on the Board of the IASC. Through participation on key committees, the Institute has made a significant contribution to projects designed to advance progress in achieving greater harmonization of accounting and auditing standards. Towards that goal, this year the IASC issued an exposure draft that would eliminate many free-choice alternatives in existing IASC standards. In addition, the International Auditing Practice Committee of IFAC is conducting a parallel effort to achieve greater international harmonization of auditing standards. These efforts are made more compelling by rapid globalization of financial markets and mounting concerns about the competitive disadvantage of U.S. companies in those markets.

To make international accounting and auditing standards more accessible to members, the Institute initiated a separate paperback edition of these standards.

Forging a Strong Professional Future

We recognize that the accounting profession must keep pace with a world of rapidly changing technology, shifting American demographics, and increased regulatory pressures. To assist the CPA in facing these challenges, the Continuing Professional Education (CPE) Division has forged ahead with new programs.

The Division responded rapidly to new developments in tax laws, auditing standards, FASB pronouncements, quality review requirements, and governmental regulations. We updated existing courses and added new ones designed to deal specifically with the complexities CPAs now face in their daily practices. Moreover, we have enacted a CPE business plan that delineates over 230 action steps designed to significantly enhance the overall quality of educational programs for members.

The demand for quality CPE is getting stronger all the time. In response, the Institute is committed to supplying members with innovative and timely seminars, conferences, and self-study programs, including video- and computer-assisted courses. In the coming years, we will strive to maintain our reputation as the leading source of quality CPE for CPAs and their professional staffs.

Charting a Course for Future CPAs

The future of the accounting profession depends largely on the men and women who will enter the field in the coming years. That's why the Relations with Educators Division is seeking to attract high-caliber students with a new brochure *Take the CPA Challenge: Careers in Accounting*, and a new recruitment film called "It All Adds Up." Currently, the film and supplementary materials are being distributed to high schools across the country.

In response to directions identified in the strategic plan, three new subcommittees were created: Accounting Careers, Accounting Educators, and the Curriculum Subcommittee. The Accounting Careers Subcommittee will focus on increasing the supply of quality individuals entering the CPA profession, and the Educators Subcommittee will provide financial support for doctoral study programs and develop additional programs designed to enhance accounting faculty members. The primary goal of the Curriculum Subcommittee is to improve the quality of accounting education and to promote the availability of quality accounting programs.

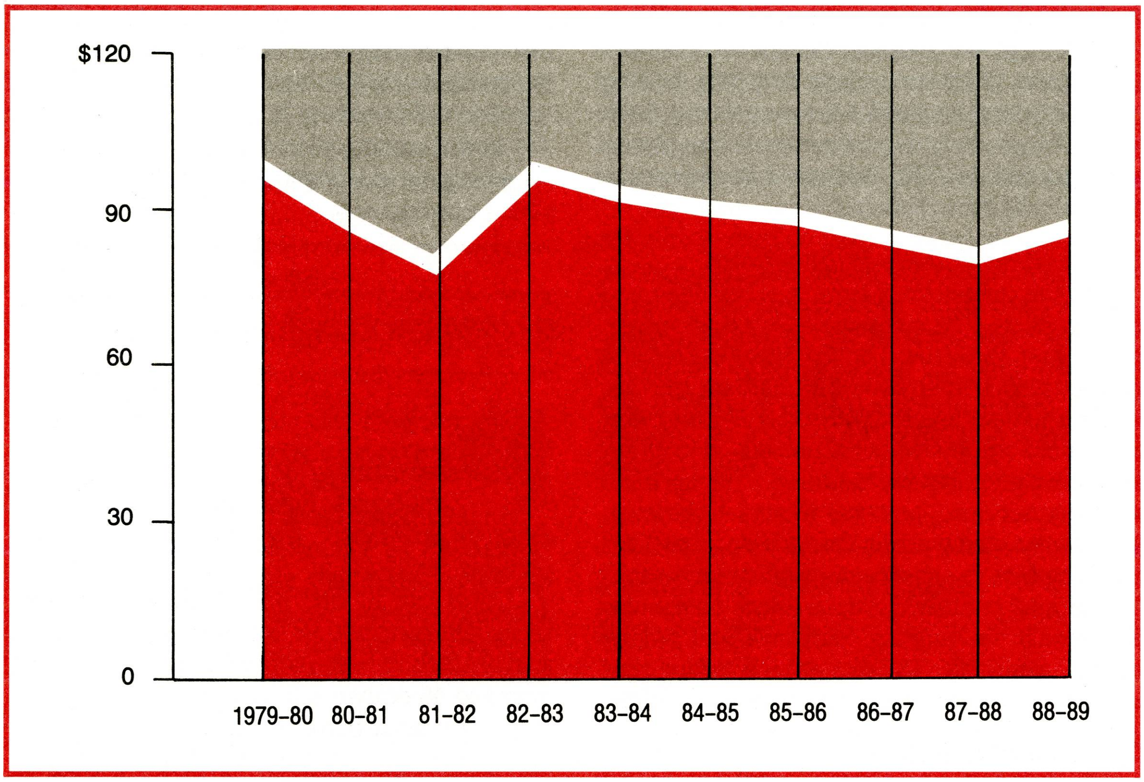
In reaction to the critical shortage of doctorates in accounting, the Institute expanded its financial assistance programs this past year. A total of $297,250 was awarded in scholarships and grants to 46 doctoral candidates in accounting.

In a related move, the Institute is assisting young men and women from minority groups who wish to take advantage of promising accounting careers. During the past year, we awarded $387,250 in scholarships to 518 minority accounting majors at more than 175 colleges and universities. Through our Minority Recruitment and Equal Opportunity Committee, the AICPA is also urging other business organizations to take similar steps to recruit and promote qualified members of minority groups.

Finally, the AICPA Board of Examiners has proposed updating the structure and format of the Uniform CPA Examination. The major changes are grading essay questions for communication skills, allowing the use of hand-held calculators, and using objective formats in addition to the multiple-choice format.

Meeting Member Needs

In keeping with the AICPA's strategic plan, we have developed and expanded programs and services geared specifically to the differing needs of our varied membership segments. From technical assistance to insurance programs to publications, our goal is providing members with the right services at the right time.



AICPA AVERAGE DUES PER MEMBER IN CONSTANT DOLLARS

Enhancing Information Services

The AICPA is committed to informing CPAs of changes in technology and to providing them with access to the latest advancements in information technology. To this end, a special committee has been appointed to recommend ways of expanding information technology services for members. Meanwhile, we introduced a number of new products and services, including:

- A computer system designed to enable the library staff to produce the *Accountants' Index* and *Accountants' Index Data Base* on a more timely basis;
- Upgrades to the popular *Audit Program Generator* and *Accountant's Trial Balance* software;
- *Engagement Manager*, the latest addition to the popular *AICPA Computerized Accounting Tools Series (CATS)*; and
- *The Electronic Index to Technical Pronouncements*. This program allows CPAs to search a diskette for key words and appropriate accounting or auditing pronouncements.

In addition, the Technical Information Division developed a new looseleaf service, the *Financial Statement Preparation Manual*, featuring disclosure checklists and illustrative financial statements for over a dozen specialized categories of financial statements.

To help members keep up with changes in these and other areas, the Division also responded to some 52,000 inquiries.

Insurance Program Expands

Continuing its history of success, the AICPA Insurance Trust saw its life insurance in force exceed the $50-billion mark. If our program were a separate insurance company, it would be the 51st largest company of the estimated 2,300 insurance companies in the United States.

The Institute introduced additional coverage through the AICPA Personal Liability Umbrella Security (PLUS) Plan. Provided by The Prudential Property and Casualty Insurance Company, a subsidiary of The Prudential Insurance Company of America, the Plan offers up to $5 million in coverage for claims against subscribers for personal liability, bodily injury, or property damage which exceeds subscribers' primary automobile and homeowners/renters coverage. Rollins Burdick Hunter Co. serves as the plan administrator.

We also improved the Long-Term Disability Program. In particular, we liberalized the definition of total disability, increased the maximum monthly disability income benefit, and expanded the definition of "earnings" to include other than primary occupation income.

Member Retirement Plan Enhanced

Last fall, we amended the AICPA Member Retirement Plan to include a profit-sharing option especially suited for new or growing firms with an unpredictable profit stream. The plan is administered by The Mutual Life Insurance Company of New York.

Providing Quality Publications

In the publications area, we launched two new products: *The Automobile Tax Diary* and the *CPA Client Tax Letter*. The *Tax Letter* has already reached a circulation of over 400,000 copies. Our leading publication, the *Journal of Accountancy*, introduced regular technical sections in accounting, emerging issues, auditing, management advisory services, personal financial planning, legal issues, and taxation. In addition, we added new graphics to enhance readability and overall appeal, and published special issues on the new Statements on Auditing Standards and quality review. Similarly, *The Tax Adviser* added new sections on computers and case studies in taxation.

A Year of Initiatives

In 1988–89, the AICPA introduced several important projects to help members in public practice and industry.

A special Management of an Accounting Practice (MAP) task force focused attention on the impact of female professional staff on public accounting. The task force produced a feature article in the *Journal of Accountancy* on how firm management practices have been affected by the influx of women into the profession.

The MAP Committee is also expanding its programs and publications to serve the needs of small and large firms. During the past year, MAP conferences and small-firm conferences drew over 1,700 practitioners.

At the National Industry Conference, over 500 members attended sessions on topics such as health care costs, staff development, annual report issues and microcomputers. In addition, a conference was held specifically for state society industry committee members.

A new program for industry members—industry forums—was launched on a pilot basis. The forums provided AICPA President Philip Chenok with the opportunity to discuss professional issues and Institute programs with industry members. Modeled after a similar program for local practitioners, the programs enabled members to discuss implementation of the Plan to Restructure, as well as their public relations, marketing and CPE needs.

Finally, to inform members of the extent of the AICPA's programs, the Industry Committee has published a new brochure entitled "AICPA Services for Members in Industry."

In the coming year, we pledge to continue reviewing our existing member services for possible improvements.

Partners in Excellence

Participation in the Division for CPA Firms continues to represent a shared commitment to excellence. And that participation is growing rapidly.

As of July 31, 1989, 4,879 firms were involved in the Division and its various programs—a 50 percent membership increase over the preceding year and more than a 200 percent increase from just four years ago. Moreover, sole proprietors—who constituted 12 percent of the PCPS membership in 1986—now represent 37 percent. This growth is, in part, a response to the Private Companies Practice Section's (PCPS) renewed emphasis on providing services to smaller firms.

The May 1989 annual PCPS conference was the most successful ever, with almost 900 attendees. Additional representatives of local firms are expected to participate in a series of conferences geared specifically to firms with ten or fewer practitioners.

The SEC Practice Section continued its efforts to enhance the quality of practice provided by its member firms, with particular emphasis on the services rendered to public companies. Examples of the SECPS's responsiveness to the public interest include the following:

- Adopting a membership rule requiring all member firms to report directly to the SEC when it ceases to be an SEC registrant's auditor;
- Authorizing its Quality Control Inquiry Committee to begin a program to assess the quality-control implications of alleged audit failures involving certain financial institutions that are not publicly owned; and
- Inviting representatives of member firms to meet with the SEC Public Oversight Board in cities around the country for an informal exchange of views that will provide the SEC with a more comprehensive understanding of the problems and perspectives of smaller firms.

For over a decade, the peer-review programs of the Division for CPA Firms have been a cornerstone of the profession's efforts to maintain and improve the quality of practice. Undoubtedly, the Division's programs will continue to provide leadership for the profession.

An Active Year for PFP

The Personal Financial Planning (PFP) Division took aggressive action to serve its more than 9,000 members.

In light of increased state legislative activity, we have devoted more energy to monitoring those regulatory changes that could adversely affect members who provide personal financial planning services. In the past year, we have seen proposed legislation whose reach could extend beyond investment advisors and financial planners to CPAs providing tax and estate planning, as well as general management consulting services. Fortunately, in the most egregious instances, the Institute's timely efforts helped to defeat such proposals.

Other notable achievements of 1988–89 are:

- The introduction of a bimonthly personal financial planning column in the *Journal of Accountancy*;
- An increase in the number of members accredited through the Institute's Accredited Personal Financial Specialist Program;
- The continuing development of high-quality personal financial planning courses; and
- The successful placement of PFP-related articles and advertisements in significant publications such as *Forbes, Sylvia Porter's Personal Finance,* and *Fortune*.

In addition, the Division developed a special seminar to enable firms to explain to prospective clients how they can benefit from personal financial planning services.

New MAS Programs Introduced

The Management Advisory Services (MAS) Division continued to develop new programs to serve its 5,000 members.

This past year, we introduced an MAS referral service which allows members to find solutions to their problems and concerns by contacting other members on the basis of specialization, industry, state, or zip code. To date, the Division has processed more than 300 inquiries.

We also published three small-business consulting practice aids, a technical consulting practice aid, and an MAS special report. In addition, the Division has initiated a comprehensive review of the existing Statements on Standards for Management Advisory Services and intends to update them to reflect recent changes in professional standards and other developments.

Promoting the Profession

At a time when the profession faces challenges from many sources, effective communications and persuasive public relations is of critical importance.

The Communications Division produced a record-breaking number of speeches, slide presentations, and brochures on tax, small business, and personal financial planning topics for use by state societies and members. Two brochures—"Retirement Planning: Achieving Financial Security for Your Future" and "Saving for College: Easing the Financial Burden"—were published as part of a new series directed to consumers and clients of CPAs.

To educate the general public about the importance of the new auditing standards and the revised format of the auditor's report, we launched a major public relations campaign. This campaign included placing an advertisement in the *Wall Street Journal*; conducting several national media seminars; and developing brochures, videotapes, and seminar materials for use at the state society, chapter, and firm levels.

In response to the thrift-industry crisis, the Division rapidly developed comprehensive information packets outlining the Institute's position on the Savings and Loan dilemma. These packets were distributed to state CPA societies and appropriate media contacts. In addition, we arranged for Institute spokespersons to be interviewed by national and local media on the causes of—and remedies for—the thrift-industry crisis.

As a result of these activities, we were successful in rebutting criticism of the accounting profession.

During the past year, the news bureau had dealings with almost 2,000 news media representatives and comprehensive media training was provided to members in leadership positions. A special effort was made to inform the public that the changes and complexity of the federal tax laws and regulations were the cause of higher tax preparation fees.

Complementing our media relations efforts, the Institute conducted its first full year of national advertising directed to business leaders and other groups. The campaign helped the accounting profession gain recognition for its strong ethics code. In addition, the Institute's advertisement, "Taxes Made Simple," which appeared in *Fortune* magazine, received an award for achieving the highest readership rate for business respondents for dollars spent in that particular issue.

The Institute continued its aggressive media relations program on other fronts, including more extensive placement of its *Money Management* series. The columns, which focus on tax matters and personal financial planning issues, now run in over 1,300 newspapers and magazines in 39 states—with a total circulation of over 23 million. We also released six tax-season public service announcements produced for television. These announcements were used by 19 state societies. In addition, they were seen with AICPA tag lines on more than 30 stations.

Public service activities remained a high priority. As part of 1989 National Consumers Week, sponsored by the U.S. Office of Consumer Affairs, the Public Service Committee produced a brochure, speech, and public service announcements on financial recordkeeping. The Committee also worked with Accountants for the Public Interest on a new initiative: A National Directory of Volunteer Accounting Programs. The directory lists nearly 200 volunteer programs in 41 states and the District of Columbia.

The video section produced tapes for members and state societies on quality review, the SECPS vote, current AICPA activities and professional issues, as well as coverage of Congressional hearings. Additional support was provided to the 54 state CPA societies through the National PR Conference, regional PR meetings, and various communications materials.

Future Directions

The Institute has taken a major step in mapping out a course for the future with the completion of its first cycle of strategic planning.

The Strategic Planning Committee recommended that the Institute implement a number of strategic initiatives to enable the AICPA to achieve its objectives and carry out its overall mission. These strategic thrusts are outlined on page 3.

Upward Mobility of Women

The Institute is also making solid progress in furthering the upward mobility of women in the profession. For example, we have initiated a widespread campaign to communicate the actions business leaders should take to ensure the upward mobility of women CPAs. In addition, we are working to implement the recommendations developed over the past few years by the Upward Mobility of Women Special Committee and are establishing a methodology for measuring trends in the upward mobility of women CPAs. In our own organization, we are committed to increasing the number of women serving on the Institute's Board, committees, and Council.

Governance and Structure

The Special Committee on Governance and Structure, chaired by Rholan E. Larson, continues to study whether we need to alter the governance and structure of the AICPA and the accounting profession to better respond to the needs of Institute members and the profession at large. The Committee created four task forces to study and prepare recommendations related to the needs of members, relationships with other key organizations, the Institute's structure, and the regulatory and licensing processes. The Committee intends to complete its work, report to the Board of Directors, and present its recommendations for action by Council and the membership during the 1989-90 Institute year.

To help solidify progress already made and to ensure that we continue translating our commitment to integrity into action, the Board of Directors recently extended Philip B. Chenok's term as president until 1995. Along with other personnel changes in recent years, this step should provide the Institute with assurance of strong, effective professional management as we face the challenges of a new decade.

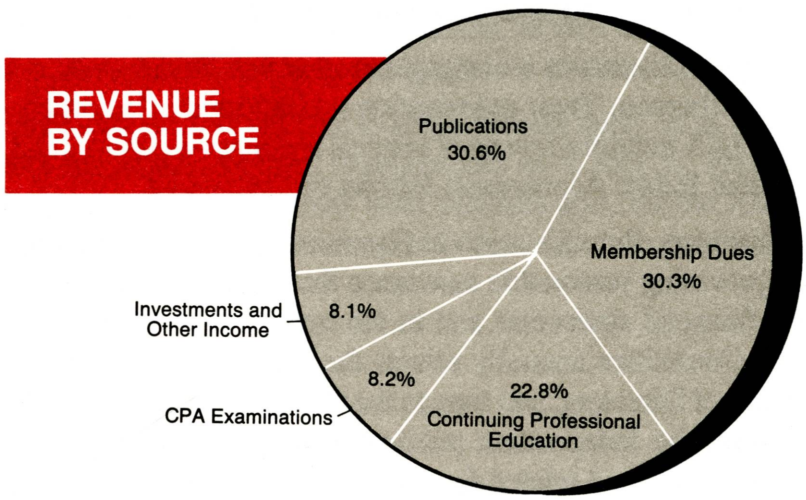
Institute Operations

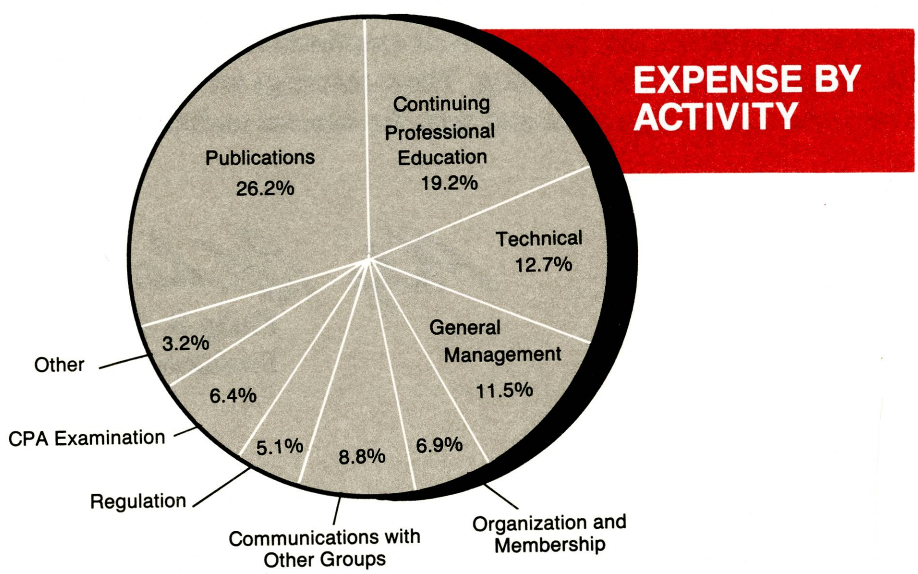
Revenue exceeded budget by $4,220,000 during the fiscal year. However, expenses were greater than budget by $4,884,000 resulting in a negative variance. The excess of expenses over revenue of $417,000 was $664,000 below the budgeted excess of revenue over expenses of $247,000 or less than 1 percent of budgeted revenue.

Sales of CPE material and publications were particularly strong. Revenue from a new on-line computer service made a contribution to the favorable revenue variance.

Costs directly related to additional revenue were $1,363,000. Unbudgeted legal fees, unanticipated legislative costs and a substantial increase in the volume of member and staff travel were the principal causes of the unfavorable expense variance.

The budget for 1989–90 provides for revenue to exceed expenses by $250,000. A modest dues increase for fiscal 1989–90 was necessary to assure that the Institute continues to provide members with the expanding level of service warranted by changing circumstances.





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 controls 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 examine the financial statements of the above entities and issue a report thereon. Their examination 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 examinations, 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 accountant.

Robert L. May
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, 1989 and 1988, 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, 1989 and 1988 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 that 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, 1989 and 1988, 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

J.H. Cohn & Company
New York, New York
August 25, 1989

	July 31	
	1989	1988
Assets:		
Cash	$ 276,000	$ 293,000
Marketable securities, at lower of cost or market	20,854,000	21,551,000
Accounts receivable (less an allowance for doubtful accounts: 1989, $366,000; 1988, $395,000)	9,688,000	10,363,000
Inventories	3,231,000	2,306,000
Deferred costs and prepaid expenses	3,921,000	4,117,000
Furniture, equipment, and leasehold improvements	8,186,000	6,459,000
	46,156,000	45,089,000
Funds held for Division for CPA Firms	2,810,000	2,327,000
	$48,966,000	$47,416,000

	1989	1988
Liabilities and Fund Balances:		
Liabilities and deferred revenue:		
Accounts payable and other liabilities	$ 9,884,000	$ 9,050,000
Advance dues	11,129,000	8,714,000
Unearned revenue from subscriptions and other sources	7,029,000	8,814,000
	28,042,000	26,578,000
Funds held for Division for CPA Firms	2,810,000	2,327,000
General fund balances	18,114,000	18,511,000
	$48,966,000	$47,416,000

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

	Year Ended July 31	
	1989	1988
Revenue:		
Dues	$28,603,000	$24,958,000
Publications	28,803,000	25,395,000
Continuing professional education	21,456,000	20,572,000
CPA examinations	7,696,000	7,353,000
Investment and sundry income	4,818,000	4,243,000
Conferences	2,855,000	2,750,000
	94,231,000	85,271,000
Expenses (see also Summary of Expenses by Activity):		
Salaries	26,386,000	22,624,000
Cost of sales	20,216,000	18,475,000
Occupancy	7,316,000	6,625,000
Meetings and travel	5,995,000	4,785,000
Postage and shipping	5,900,000	5,835,000
Professional services	5,128,000	3,674,000
Printing and paper	5,084,000	5,213,000
Personnel costs	4,835,000	4,152,000
Promotions and advertising	3,992,000	4,127,000
Commercial services	1,835,000	1,949,000
Support for professional organizations	1,346,000	1,194,000
Equipment rental and maintenance	1,194,000	1,041,000
Telephone	1,078,000	928,000
Office and computer supplies	955,000	927,000
Mailing services	777,000	725,000
Fees	613,000	783,000
Income taxes	506,000	454,000
Other	1,492,000	1,301,000
	94,648,000	84,812,000
Excess (deficiency) of revenue over expenses	**$ (417,000)**	**$ 459,000**

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

Summary of Expenses by Activity

	Year Ended July 31	
	1989	1988
CPA examinations	$ 6,021,000	$ 5,262,000
Publications:		
Produced for sale	19,606,000	16,588,000
Distributed to members and others	5,155,000	4,978,000
Continuing professional education	18,169,000	17,185,000
Conferences	2,389,000	2,225,000
Technical:		
Accounting and review services	51,000	24,000
Accounting standards	991,000	903,000
Auditing standards	1,731,000	1,704,000
Federal taxation	2,654,000	2,106,000
Management advisory services	734,000	666,000
Computer services	3,000	374,000
International practice	739,000	540,000
Technical assistance to members	2,145,000	1,962,000
Library	1,405,000	1,226,000
NAARS program	730,000	514,000
Financial Accounting Foundation support	545,000	510,000
Accountants' legal liability	344,000	431,000
National Commission on Fraudulent Financial Reporting	4,000	66,000
Regulation:		
Ethics and trial board	1,438,000	1,366,000
State legislation	489,000	253,000
Division for CPA Firms	744,000	756,000
Quality control programs	2,158,000	1,044,000
Organization and membership:		
Board, council and annual meetings	1,880,000	3,197,000
Nominations and committee appointments	122,000	124,000
Communications with members	367,000	410,000
Membership services	3,203,000	2,636,000
Special organizational studies	930,000	2,171,000
Communications with other groups:		
Public relations	2,703,000	1,736,000
State societies	369,000	186,000
Universities	908,000	611,000
Federal government	4,375,000	3,582,000
Assistance programs for minority students	692,000	598,000
General management	10,854,000	8,878,000
	$94,648,000	$84,812,000

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

American Institute of Certified Public Accountants

Statement of Changes in Fund Balances

	Year Ended July 31	
	1989	1988
General Fund:		
Fund balances, beginning of year	$18,511,000	$18,072,000
Excess (deficiency) of revenue over expenses	(417,000)	459,000
Unrealized gain (loss) on investments	20,000	(20,000)
Fund balances, end of year	$18,114,000	$18,511,000

American Institute of Certified Public Accountants

Statement of Cash Flows

	Year Ended July 31	
	1989	1988
Decrease in Cash:		
Cash Flows from Operating Activities:		
Cash received from members and customers	$ 93,243,000	$ 86,820,000
Interest and dividends received	1,975,000	1,374,000
Cash paid to suppliers and employees	(92,228,000)	(82,124,000)
Income taxes paid	(443,000)	(1,054,000)
Net cash provided by operating activities	2,547,000	5,016,000
Cash Flows from Investing Activities:		
Payments for purchase of equipment	(3,475,000)	(2,239,000)
Payments for purchase of marketable securities	(30,785,000)	(38,868,000)
Proceeds from sale of marketable securities	31,696,000	35,972,000
Net cash used in investing activities	(2,564,000)	(5,135,000)
Net decrease in cash	(17,000)	(119,000)
Cash, beginning of year	293,000	412,000
Cash, end of year	$ 276,000	$ 293,000
Reconciliation of excess (deficiency) of revenue over expenses to net cash provided by operating activities:		
Excess (deficiency) of revenue over expenses	$ (417,000)	$ 459,000
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided by operating activities:		
Depreciation and amortization	3,529,000	2,935,000
Gain on sale of marketable securities	(194,000)	(1,129,000)
Amortization of subscription revenue	(3,417,000)	(3,123,000)
Provision for losses on accounts receivable	124,000	188,000
Provision for obsolete inventories	600,000	600,000
(Increase) decrease in:		
Accounts receivable	551,000	(4,339,000)
Inventories	(1,525,000)	66,000
Deferred costs and prepaid expenses	(1,585,000)	(3,040,000)
Increase (decrease) in:		
Accounts payable and other liabilities	834,000	1,572,000
Accrued taxes	—	(687,000)
Advance dues	2,415,000	5,030,000
Unearned revenue from subscriptions and other sources	1,632,000	6,484,000
Total adjustments	2,964,000	4,557,000)
Net cash provided by operating activities	$ 2,547,000	$ 5,016,000

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

Balance Sheet–July 31

	American Institute of Certified Public Accountants Foundation		AICPA Benevolent Fund, Inc.		Accounting Research Association, Inc.	
	1989	1988	1989	1988	1989	1988
Assets:						
Cash	$ 1,000	$ 1,000	$ 7,000	$ 5,000	$ 7,000	$ 4,000
Marketable securities at lower of cost or market*	2,532,000	2,453,000	1,387,000	1,490,000	904,000	1,150,000
Notes and mortgages receivable (net of allowance for doubtful collections 1989, $51,000; 1988, $52,000)	—	—	331,000	272,000	—	—
Dues receivable	—	—	—	—	1,087,000	737,000
Other receivables	29,000	30,000	22,000	21,000	14,000	15,000
	$2,562,000	$2,484,000	$1,747,000	$1,788,000	$2,012,000	$1,906,000
Liabilities and Fund Balances:						
Liabilities and deferred revenue:						
Accounts payable	$ 55,000	$ 46,000	$ 5,000	$ —	$ 269,000	$ 243,000
Advance dues	—	—	—	—	1,221,000	1,217,000
Scholarships payable	380,000	344,000	—	—	—	—
	435,000	390,000	5,000	—	1,490,000	1,460,000
Fund Balances:						
General	34,000	32,000	1,742,000	1,788,000	522,000	446,000
Library	909,000	906,000	—	—	—	—
John L. Carey Scholarship Fund	415,000	389,000	—	—	—	—
Accounting Education Fund for Disadvantaged Students	753,000	753,000	—	—	—	—
E.W. Sells Award Fund	16,000	14,000	—	—	—	—
	2,127,000	2,094,000	1,742,000	1,788,000	522,000	446,000
	$2,562,000	$2,484,000	$1,747,000	$1,788,000	$2,012,000	$1,906,000

***NOTE:**

Marketable securities at market (m) or cost (c)	$2,608,000 (m)	$2,456,000 (c)	$1,478,000 (m)	$1,492,000 (c)	$ 967,000 (m)	$1,151,000 (c)

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.	
	1989	1988	1989	1988	1989	1988
Additions:						
Investments and sundry income	$ 175,000	$ 137,000	$ 109,000	$ 88,000	$ 115,000	$ 96,000
Gain on sale of securities	15,000	75,000	21,000	112,000	12,000	59,000
Contributions/dues	465,000	433,000	168,000	153,000	2,962,000	2,819,000
	655,000	645,000	298,000	353,000	3,089,000	2,974,000
Deductions:						
Support/scholarships	620,000	541,000	—	—	2,621,000	2,643,000
Assistance to members and families	—	—	312,000	257,000	—	—
FASB subscription service	—	—	—	—	200,000	163,000
Other	5,000	5,000	34,000	33,000	193,000	151,000
	625,000	546,000	346,000	290,000	3,014,000	2,957,000
Increase (decrease) in fund balances	30,000	99,000	(48,000)	63,000	75,000	17,000
Fund balances, beginning of year	2,094,000	1,998,000	1,788,000	1,727,000	446,000	430,000
Unrealized gain (loss) on investments	3,000	(3,000)	2,000	(2,000)	1,000	(1,000)
Fund balances, end of year	$2,127,000	$2,094,000	$1,742,000	$1,788,000	$ 522,000	$ 446,000

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.

■ 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 term 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).

■ In accordance with the provisions of the Audit and Accounting Guide, "Audits of Certain Nonprofit Organizations," the Institute reports unallocated general management expense as a separate activity in the Summary of Expenses by Activity.

Notes to Financial Statements July 31, 1989 and 1988

1. Marketable Securities

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

	1989	1988
U.S. Treasury bonds and notes	$ 4,040,000	$ 9,816,000
Bonds, notes, and money market funds	11,697,000	11,735,000
Equities	5,117,000	—
	$20,854,000	$21,551,000
Market value	$22,250,000	$21,551,000

2. Inventories

Inventories at July 31 consist of:

	1989	1988
Paper and material stock	$ 716,000	$ 615,000
Publications in process	539,000	412,000
Printed publications and course material	1,976,000	1,279,000
	$ 3,231,000	$ 2,306,000

3. Furniture, Equipment, and Leasehold Improvements

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

	1989	1988
Furniture and equipment	$11,697,000	$ 8,849,000
Leasehold improvements	5,313,000	4,687,000
	17,010,000	13,536,000
Less accumulated depreciation and amortization	8,824,000	7,077,000
	$ 8,186,000	$ 6,459,000

Depreciation of furniture and equipment and amortization of leasehold improvements for the years ended July 31, 1989 and 1988 were $1,748,000 and $1,330,000.

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, certain commissions 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, 1989 were $32,509,000. This amount does not include future escalations for real estate taxes and building operating expenses. Minimum rental commitments are:

Year Ended July 31	
1990	$ 5,046,000
1991	5,353,000
1992	5,317,000
1993	5,059,000
1994	3,899,000
Years subsequent to 1994	7,835,000
	$32,509,000

Rental expense for the years ended July 31, 1989 and 1988 were $6,250,000 and $5,824,000.

6. Retirement Plan

The Institute sponsors a noncontributory defined benefit pension plan for substantially all employees. Under proposed plan changes required by regulations under the Internal Revenue Code (IRC), pension benefits will be fully vested after five years of service. 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 necessary in a particular year.

The components of the net pension expense for the years ended July 31 were:

	1989	1988
Service cost–benefits earned during the year	$ 976,000	$ 925,000
Interest cost on projected benefit obligation	1,090,000	952,000
Return on plan assets:		
Actual	(3,181,000)	75,000
Deferred	1,452,000	(1,658,000)
Net amortization of unrecognized net asset	(274,000)	(274,000)
	$ 63,000	$ 20,000

Funded status of the plan:

	May 1	
	1989	1988
Actuarial present value of projected benefit obligation, based on employment service to date and current salary levels:		
Vested benefits	$10,348,000	$ 9,328,000
Non-vested benefits	784,000	372,000
Additional amounts related to projected salary increases	3,484,000	4,166,000
Projected benefit obligation	$14,616,000	$13,866,000
Assets available for benefits:		
Plan assets at fair value	$23,074,000	$20,390,000
Accrued pension cost	63,000	20,000
	$23,137,000	$20,410,000
Assets in excess of projected benefit obligation:		
Unamortized portion of amount existing at date FAS No. 87 was adopted	$ 3,981,000	$ 4,255,000
Amount arising subsequent to adoption of FAS No. 87	6,007,000	2,289,000
Unrecognized prior service cost	(1,467,000)	—
	$ 8,521,000	$ 6,544,000

The May 1, 1989 plan valuation was computed in accordance with proposed plan changes required by IRC regulations. 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 8½% as of May 1, 1989 and 8% as of May 1, 1988. The expected long-term rate of return on plan assets used in determining net pension expense for fiscal years ended July 31, 1989 and 1988 was 9½%. The assumed rate of increase in future compensation levels was 5½% for both 1989 and 1988.

The Institute also sponsors a 401(k) defined contribution plan covering substantially all employees meeting 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 $228,000 and $199,000 for the years ended July 31, 1989 and 1988.

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 awards, from the Accounting Education Fund for Disadvantaged Students, scholarships to minority students. It also provides financial assistance for 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 $2,260,000 for the calendar year 1989.

The ARA also makes a best efforts commitment to raise funds for support of the Governmental Accounting Standards Board (GASB). The commitment is $420,000 for the calendar year 1989. It is anticipated the ARA will continue to support the FASB and GASB.

8. Support for the 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, 1989 were:

	Cash	Marketable Securities	Total
Private Companies Practice Section	$ 4,000	$ 862,000	$ 866,000
SEC Practice Section	8,000	1,936,000	1,944,000
	$12,000	$2,798,000	$2,810,000

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

	July 31, 1989	
Balance Sheet	**Private Companies Practice Section**	**SEC Practice Section**
Assets:		
Cash	$ 4,000	$ 8,000
Marketable securities at lower of cost or market*	862,000	1,936,000
Dues and other receivables	54,000	152,000
	$920,000	$2,096,000
Liabilities and Fund Balances:		
Accounts payable	$ 19,000	$ 154,000
Advance dues	253,000	646,000
Fund balances	648,000	1,296,000
	$920,000	$2,096,000

***NOTE:**

Marketable securities at market	$883,000	$1,985,000

	Year Ended July 31, 1989	
Statement of Changes in Fund Balances	**Private Companies Practice Section**	**SEC Practice Section**
Additions:		
Dues	$531,000	$1,490,000
Gain on sale of securities	3,000	8,000
Investment and sundry income	99,000	142,000
	633,000	1,640,000
Deductions:		
Expenses of Public Oversight Board:		
Salaries and fees	—	832,000
Administrative expenses	—	443,000
	—	1,275,000
Public relations program	38,000	37,000
Printing	105,000	40,000
Membership directory	30,000	30,000
Legal fees	—	25,000
Administrative and other expenses	206,000	45,000
	379,000	1,452,000
Net increase in funds	254,000	188,000
Fund balances, beginning of year	394,000	1,107,000
Unrealized gain on investments	—	1,000
Fund balances, end of year	$648,000	$1,296,000

In addition to the expenses shown above, the Institute incurred expenses during the years ended July 31, 1989 and 1988 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.

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