1990

AICPA annual report 1989-90; Strategies & strength: Charting a new decade

American Institute of Certified Public Accountants

ANNUAL REPORT
1989–1990

Strategies & Strength:
Charting a New Decade

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American Institute of Certified Public Accountants

The American Institute of Certified Public Accountants is the national professional organization of 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

As we enter a new decade, we must recognize that the challenge of responding to economic, technological, and social change will dominate the remainder of this century. Our success—the growth of our profession and the role we play in preserving the health of our nation's economy—will depend in large part on the strategies we develop today and the strength with which we carry out our initiatives.

A Year of Achievements. If this past year is a measure of how well the accounting profession will respond to coming challenges, then we are charting a very good course indeed. Once again, our members underscored their commitment to quality and self-regulation by voting in favor of a new bylaw that requires membership in the SEC Practice Section for firms auditing public companies. The American Institute of CPAs is proud of the fact that our members have voluntarily chosen to abide by one of the strictest professional codes of conduct in force today. Implementation of the quality review program, continuing professional education, and other aspects of the Plan to Restructure Professional Standards are high on our agenda.

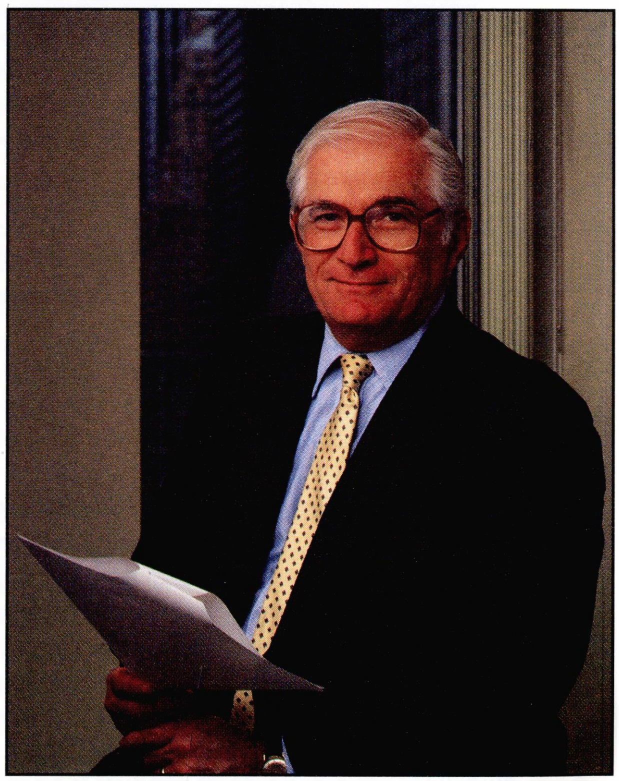
Our resolution to foster and uphold the highest standards of professional performance extends beyond our own ranks. In a landmark report, the Institute recommended that the federal government appoint an independent chief financial officer, establish a uniform system of accounting and reporting standards, issue annual financial statements, and obtain annual independent audits of those statements. As a direct result of Institute initiatives, these recommendations are under active consideration in Congress.

The year was marked by other achievements as well. We made significant progress in the area of tort reform, won increased support for 150 hours of education to become a CPA, and raised awareness of the need for tax simplification. Through strategic leadership, we played a major role in winning modification or repeal of detrimental legislation.

A Future of Opportunities. But much work still lies ahead. In response to the savings and loan crisis, the financial health of other industries needs to be carefully monitored. We, as CPAs, must be a part of that process to more effectively serve the public interest.

In looking toward the future, we see a global economy in which our professional services and expertise will be in more demand than ever before. In our own country, we will undoubtedly face economic challenges—and CPAs must be prepared to help guide the American public. We must be ready to meet their needs with strategies and strength.

Strategies and strength. A unique combination that will enable us to progress through this next decade with integrity, objectivity and competence.



Philip B. Chenok
President

The Year in Review

A Vote for Quality

Once again, our members have voted "yes" for quality and self-regulation. In January 1990, AICPA members overwhelmingly approved the last component of the Plan to Restructure Professional Standards—a bylaw amendment requiring that public accounting firms with Securities and Exchange Commission (SEC) clients belong to the SEC Practice Section (SECPS) of the AICPA Division for CPA Firms. The final tally was 86.9% in favor of the proposal, far exceeding the two-thirds majority required to pass the amendment. This positive vote sends a clear message: the CPA profession is committed to ensuring quality performance by public accounting firms.

By July 31, 1990, approximately 500 firms had joined the SEC Practice Section, bringing its membership to approximately 1,050 firms.

Recognizing the significance of the membership vote and the strong support for self-regulation that it demonstrates, the SEC has suspended its efforts to establish a mandatory peer review program.

Implementing Quality Review

With the cooperation of state CPA societies, the AICPA began implementing quality review on a profession-wide scale. Over 4,000 firms are expected to undergo quality review this year, and the number will double in 1991. To achieve that ambitious goal and ensure the overall success of the program, the Institute has—

- Created a sophisticated computer system that assists state societies in scheduling and monitoring quality reviews, as well as in generating letters and reports vital to sound administration.
- Increased the bank of CPAs willing to act as reviewers to over 5,200 individuals.
- Developed new, more comprehensive training programs for reviewers, state society administrative staff, and quality review committee members.
- Cemented its partnership with state societies with increased support and frequent, substantive meetings with society leadership and staff.
- Issued a detailed administrative manual and a series of "QR Information Bulletins" for state society administrative staff.
- Added necessary staff to assist state societies in administering their quality review programs.
- Begun a program to assist state society quality review committees and track the types of problems they are encountering.

More than 99% of partners associated with the AICPA who are in public accounting firms have indicated their willingness to enroll their firms in a practice-monitoring program—which is yet another testimonial to our members' commitment to effective self-regulation and quality practice.

Standing Up for Ethics

The AICPA has devoted substantial resources to accomplish the ethical changes voted on by the membership as part of the Plan to Restructure Professional Standards. All ethics interpretations and rulings related to independence and behavioral and technical standards have been reviewed—including the new terms and definitions contained in the revised code of conduct. New and revised pronouncements have been issued and the codification of independence rules is being completed.

The AICPA has also supported the International Federation of Accountants in its development of international guidelines on ethics for professional accountants. These international guidelines set standards of conduct for professional accountants and state the fundamental principles that should be observed by professional accountants in order to serve the public interest more efficiently.

Raising Educational Standards

Yet another ingredient in the profession's formula for excellence is education. Effective for the first time this year, all members will take CPE courses to retain membership in the AICPA. Adopted as part of the Plan to Restructure, the new requirements are as follows:

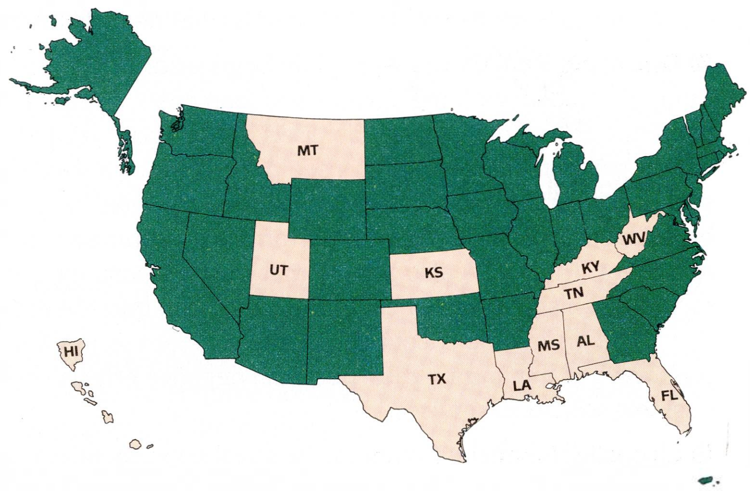
- Members not in public practice must complete 60 hours of CPE during the first three-year reporting period, including a minimum of 10 hours each year.
- Members in public practice must complete 120 hours of CPE for each three-year reporting period, including a minimum of 20 hours each year.

Equivalent state requirements will be accepted for this purpose and a wide range of programs will be allowed.

In light of the new requirements, the CPE Division has been hard at work developing uniform CPE policies and standards, and creating new courses for members in industry, education, and government.

The Institute has also stepped up its efforts on behalf of the 150-hour education requirement for CPAs entering the profession, which goes into effect as an AICPA requirement in the year 2000. Booklets, brochures, and papers have been prepared to explain how the new requirement will benefit both the profession and the public it serves. To ensure uniformity and minimize reciprocity problems, we have urged state societies to recommend that the implementing laws be broadly stated. These efforts on behalf of the 150-hour education requirement have paid off in success. In the past year, three more states have enacted the requirement, bringing the total to 12 states: Alabama, Florida, Hawaii, Kansas, Kentucky, Louisiana, Mississippi, Montana, Tennessee, Texas, Utah, and West Virginia.

Status of Legislative Initiatives



As of July 31, 1990, the 150-Hour Requirement was passed by 12 states, representing 20 percent of all CPA candidates.

Reaching Agreement with the FTC

At the end of July, the Federal Trade Commission issued a Final Order in its investigation of the AICPA. Under the final consent order, the AICPA will prohibit acceptance of commissions and contingent fees for any work done for most attest clients. Members who accept commissions from other clients must disclose this fact. The order also affects AICPA rules prohibiting certain forms of advertising and client solicitation. Prohibitions against false, misleading or deceptive advertising remain in force. The Institute also will be able to prohibit contingent fees for preparing tax returns or tax-refund claims.

Allowing Changes in Form of Practice

The AICPA Board of Directors voted in July to recommend that the governing Council authorize a vote of the membership to amend Rule 505 so that CPAs can practice in limited-liability corporations. Current AICPA rules say members can practice public accounting only in a proprietorship, partnership, or professional corporation.

Gaining Ground in the Nation's Capital The Institute's efforts to achieve meaningful legislation in both the public's and the profession's interests continue to be a high priority. This year, the AICPA led the call for improved federal financial management, reform of liability laws, and a host of other initiatives.

■ **Federal Financial Management.** In keeping with our commitment to serve the public interest, the Institute has focused on improvements in the way the federal government manages its financial affairs. Last fall, the AICPA issued a landmark report recommending that the federal government appoint an independent chief financial officer, establish a system of uniform financial accounting and reporting standards, issue annual financial statements, and obtain annual independent audits of those statements. The AICPA also sponsored a colloquium for members of Congress, administration officials, the business community, and the press to highlight the issue and encourage dialogue. As a result of these initiatives, Congress is now considering legislation that calls for the appointment of a chief financial officer of the United States.

■ **Opposing Real Estate Appraisal Legislation.** Last year, as part of the legislation passed by Congress to deal with the savings and loan crisis, a requirement was adopted stating that any individual or firm performing appraisals of real estate related to loans insured or guaranteed by the federal government must be licensed or certified by a state regulatory agency. In comment letters sent to the various federal agencies involved with this issue, the Institute recommended that there be an exemption for CPAs who perform such appraisals as an incidental part of other services to a client. The AICPA also argued that business valuation should not be included in the regulatory mechanisms established by the states and that the focus be solely on real estate appraisals.

The Institute is encouraging state societies to monitor such legislative proposals and to seek ways of minimizing their potential negative effects on members, especially as they relate to business valuation services.

■ **Licensing Financial Planners.** Personal financial planning legislation, introduced in April, has also drawn a response from the AICPA. The proposed legislation (H.R. 4441) would, among other things, require financial planners — including CPAs—to register as investment advisers. In addition, the legislation increases the practitioner's liability by providing a "private right of action" for damages resulting from violations of the Investment Advisers Act of 1940. The AICPA opposes the proposal as currently drafted and testified to that effect at a congressional hearing in July. The Institute continues to discuss the matter with the sponsors to attempt to resolve the profession's concerns with this legislation.

■ **Auditing Insurance Companies and Pension Funds.** A report issued earlier this year by the House Energy and Commerce Committee criticized state regulation of the insurance industry and warned that the industry could face a solvency crisis rivaling that of the nation's savings and loan industry. The problems in the insurance industry, as identified in the report, have drawn attention to the need for independent audits by CPAs. At present, 35 states do not require an independent audit of insurance companies, although several states have recently introduced legislation mandating such audits. The AICPA is closely monitoring state legislative action on this issue.

At the same time, the Institute is working with the Department of Labor to improve audits of employee retirement benefit plans and to gain relief from unreasonable third-party liability. The AICPA has declared its support of legislation that would require full scope audits of the nation's more than 105,000 private pension funds.

Finally, Department of Labor representatives and the Institute have agreed on changes to audit guidelines which will correct some problem areas identified in ERISA guidelines. These changes will be included in the revised AICPA audit and accounting guide, *Audits of Employee Benefit Plans*.

■ **Working to Limit Liability.** Another major objective of the AICPA is tort reform and the reduction of liability exposure for members. Joined by a broad coalition of business and labor organizations, the AICPA is working to end the litigation abuse caused by the civil aspects of the Racketeer Influenced and Corrupt Organizations (RICO) Statute.

In the 101st Congress, hearings were held on two companion RICO reform bills. The AICPA supports passage of legislation that will improve the existing law and urges Congress to approve a civil RICO reform law this year. Meanwhile, the AICPA is working with the state societies to build grassroots support for passage of a bill.

The AICPA is also working with the state societies to enact legislation that would revise the rules on joint and several liability, restrict through privity legislation the ability of unforeseen third parties to sue accountants for negligence, and limit punitive damage awards.

This year, a privity bill was passed in Utah, thanks to the efforts of the Utah State Society of CPAs. In Idaho, our actions contributed to a favorable privity decision by the state's highest court. In addition, two other state courts rendered favorable privity decisions this year based, in part, on the decisions of other state courts in which the Institute had previously filed amicus briefs. At the same time, the AICPA continues to file "friend of the court" briefs to influence state court decisions on the privity issue.

On the Cutting Edge of Tax Initiatives

Through the Tax Division, the AICPA continues to spearhead critical tax legislation and aggressively defend the rights of both tax practitioners and taxpayers. During this year, we have taken steps to protect CPAs from unfair preparer penalties, to simplify tax laws, and to defeat legislation that would be harmful to the profession, the public, and the business community.

■ **Repealing Section 89.** The Institute was instrumental in the repeal of Section 89 of the Internal Revenue Code, which would have required burdensome tests for determining whether an employee benefit plan was discriminatory. New legislation also simplified the corporate alternative minimum tax.

■ **Arguing for Tax Simplification.** The AICPA has been a leader in efforts to simplify the income tax law. Along with the American Bar Association Tax Section, the Institute co-sponsored a major conference for leading tax practitioners and policymakers on reducing income tax complexity. AICPA representatives also testified on tax simplification and submitted specific recommendations to the House Ways and Means Committee.

Dennis Milbauer

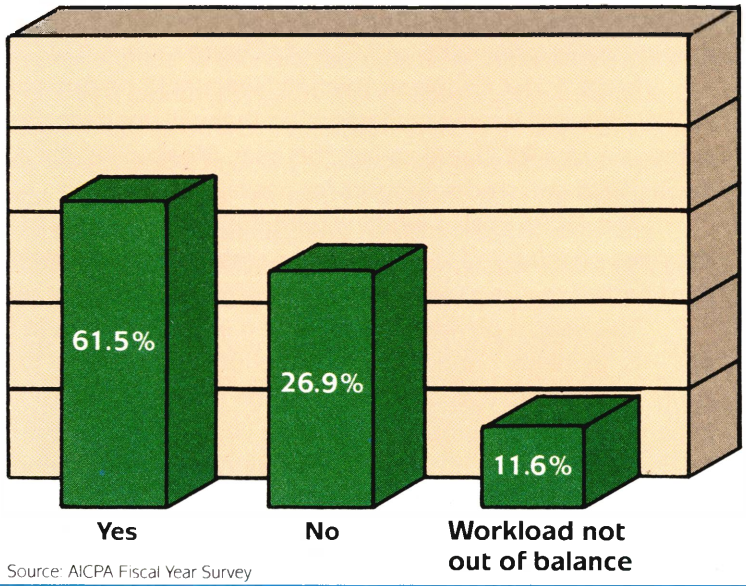
■ **Working with the IRS.** Enhancing IRS administration of the tax law remains a top priority. In addition to submitting recommendations for improving tax forms, the Institute surveyed practitioners on attitudes toward the IRS. The survey results were communicated to the IRS to help stimulate progress.

■ **Improving Estate Freeze Legislation.** The AICPA has helped identify and highlight problems with the current estate freeze law, which unduly restricts many transactions in an effort to curb perceived abuses. Not only has corrective legislation been drafted, but the AICPA has also testified at hearings on this proposal.

Modifying Fiscal-Year Legislation. The AICPA is striving to correct the workload imbalance created by the Tax Reform Act of 1986 requirement for calendar year-ends. To this end, the Institute has conducted a survey of members that documents the extent of the tax and accounting workload compression in the first few months of the year. Representatives of the AICPA have held numerous meetings with members of Congress, with their staffs, and with the Department of the Treasury. With the AICPA's support, Congressman Ronnie Flippo, (D-AL), CPA, has introduced remedial legislation to liberalize and simplify fiscal-year elections.

Tax Division Members Comment on Workload Problem

If TRA section 444 is simplified and liberalized, do you think enough of your clients will adopt a fiscal year to help alleviate your office's workload imbalance significantly?



Source: AICPA Fiscal Year Survey

Tax Division Comments on "Bubble." The tax rate schedule for individuals contains a requirement for income to be taxed at a 33 percent marginal rate to bring the overall rate up to 28 percent for those who have received the benefit of lower income brackets and personal exemptions. In fact, no one is ever taxed at more than 28 percent of income. Some of the rhetoric surrounding tax-rate increase proposals has indicated that rates drop from 33 percent to 28 percent for high-income individuals. The Tax Division sent letters to members of Congress explaining the situation and encouraging responsible legislation based on a correct understanding of the law.

State Tax Administrative Uniformity Encouraged. The Tax Division has published a Report on Corporate State Tax Administrative Uniformity, encouraging states to be more uniform in the administration of the tax law for corporations. The complexity of varying state administrative provisions is time consuming and expensive for multi-state corporations, and serves little purpose for the states. The AICPA hopes that circulating and promoting the report will help encourage states to cooperate and coordinate their tax administration provisions.

Progress Through Interaction

Member support and cooperation among state CPA societies, national and international professional organizations, and accounting boards are the keys to accomplishing many of the Institute's goals—from promoting favorable laws and regulations to achieving international harmonization of accounting and auditing standards.

This year, we were especially successful in working with our members and colleagues to strengthen the profession through cooperative activities in legislatures and regulatory agencies—and through a number of strategic initiatives.

Grassroots Support Among Members. The AICPA continues to try to improve upon its effective "key person" program. At the heart of this activity is our reliance on dedicated volunteer members who carry our legislative messages to individual members of Congress. Member interest in our legislative program is also demonstrated through the generous financial support of the AICPA's Effective Legislation Committee.

State Society Relations. Over the past year, the Institute has worked closely with state CPA societies on a number of key issues—including passage of the SECPS mandatory membership requirement, implementation of the quality review program, and efforts to enact the 150-hour education requirement at the state level.

At the same time, we continue to assist state societies in dealing with state legislative issues of concern to the profession. For the first time in many years, the AICPA sponsored a Conference on State Legislative Issues, which provided state society attendees with practical strategies for responding to specific state legislative issues.

To further assist the states, we distributed *A Guide to State Legislative and Regulatory Issues Affecting the Profession*—an ongoing reference tool that provides position papers and status reports on a host of legislative issues.

Working for Uniformity. The AICPA and the National Association of State Boards of Accountancy (NASBA) increased their level of interaction during the past year. Recently, the two organizations joined with the Certified Public Accountants' State Society Executives Association (CPA/SEA) to form the Conference Committee on Uniformity of Regulation of the Accounting Profession. The Committee's aim is the adoption of a revised, uniform model accountancy bill, and the development of a conceptual framework for regulation of the profession.

International Relations. The AICPA continues to be actively involved on the international scene. Through its support of the International Federation of Accountants and the International Accounting Standards Committee (IASC), the AICPA has made a significant contribution toward achieving international harmonization of accounting, auditing and ethical guidelines.

Setting Auditing Standards

Helping practitioners implement recent auditing pronouncements is one of the primary missions of the Auditing Standards Division. This past year, briefing sessions were held throughout the country to help practitioners better understand the new Statement on Auditing Standards (SAS) No. 63, "Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance."

The Division has also issued a number of tools designed to assist CPAs in their auditing practices. An example of this effort is a recently published guide that explains how auditors can apply SAS No. 55, "Consideration of the Internal Control Structure in a Financial Statement Audit," in various audit situations.

To help members identify potential problems and high-risk areas in audits, the Institute published *Audit Risk Alert 1989,* an update of current economic, professional, and regulatory developments. Among the matters covered in the alert are the performance and reporting requirements that became effective in 1989. The alert also addresses timely issues, such as audit risks rising from leveraged buyouts and investments in junk bonds.

Another innovation this year was the *Current Industry Developments* series, which reminds practitioners of matters that may affect audit risk in audits of savings and loans, credit unions, property and liability insurers, health-care providers, and employee benefit plans.

Finally, the Accounting and Review Services Committee has issued three interpretations to help CPAs determine whether the services they provide are subject to the performance and reporting requirements mandated by Statements on Standards for Accounting and Review Services.

Implementing Treadway Commission Recommendations. Combating fraudulent financial reporting also remains an Institute priority. Along with four other sponsoring organizations, the AICPA has taken steps to ensure that the recommendations of the Treadway Commission are implemented. A recent focus has been on improving corporate internal controls.

Earlier this year, with assistance from the AICPA and other organizations that sponsored the Treadway Commission, the Financial Executives Research Foundation initiated a study to help corporations evaluate and improve systems of internal control. Scheduled for publication late in 1990, the final report will assist corporate management in determining how well their systems of internal control operate and how they can be improved to enhance the integrity of a company's financial reports.

Monitoring Accounting Standards In accordance with its commitment to play a more effective role in the accounting standard-setting process, the Institute is developing guidance on matters not being addressed by the Financial Accounting Standards Board (FASB). Specifically, the AICPA's Accounting Standards Division has initiated projects on acquisition, development, or construction arrangements, employee stock ownership plans, estates and trusts, licensing agreements, noncompete agreements, post-balance-sheet events, and accounting for environmental concerns.

The Division has also initiated a study to consider whether current financial statements appear to meet the needs of financial-statement users. This study is just one of the more than 30 projects on the Division's active agenda.

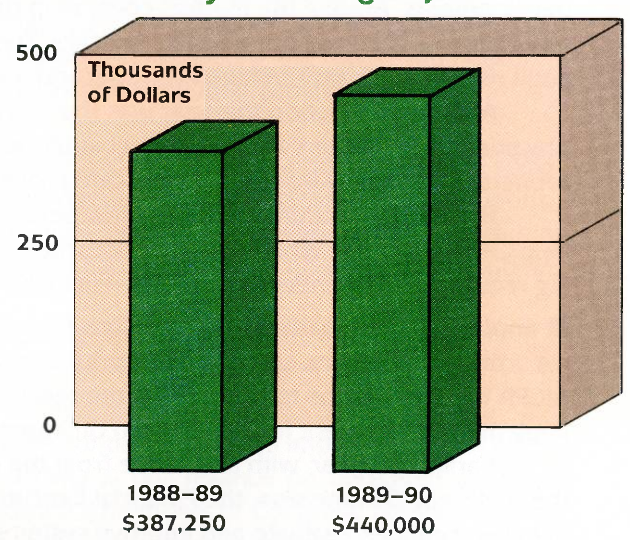
Attracting the Best and the Brightest To attract the best and the brightest students into the accounting profession, the AICPA has embarked on an expanded recruitment program. High school students around the country have already had an opportunity to view the accounting careers video "It All Adds Up," which was produced by the Texas Society of CPAs and distributed by the AICPA. College students enrolled in accounting classes are the audience for a second video, released in the fall, that focuses on opportunities available to those who choose accounting as a career.

The AICPA also has supported the Accounting Education Change Commission, which issued grants totaling almost $1 million to five universities to stimulate innovation in accounting education. Organized last year by the American Accounting Association, the 18-member commission is funded by the six largest accounting firms. Its mission is to be a catalyst for improving the academic preparation of accountants. From among 40 proposals, the commission awarded grants to the University of Massachusetts, the University of North Texas, and to Brigham Young, Kansas State and Rutgers universities.

To help the profession chart a course for future recruitment efforts, the Institute has initiated a research study of the career awareness level among high school and college students. The results will enable the Institute to develop more targeted recruitment and educational materials.

At the same time, the AICPA has tried to alleviate the shortage of qualified accounting faculty by awarding $291,000 to doctoral candidates in accounting. Similarly, the Institute continues to assist young men and women from minority groups who wish to pursue accounting careers. During the past year, we awarded $440,000 in scholarships to approximately 625 minority accounting majors at more than 200 colleges and universities. Through our Minority Recruitment and Equal Opportunity Committee, the AICPA is also urging CPA firms and other business organizations to recruit and advance qualified members of minority groups.

Increase in Scholarships Awarded to Minority Accounting Majors



Updating the CPA Examination

Each year, some 140,000 candidates take the Uniform CPA Examination. Starting in May 1994, that examination will undergo a number of critical changes which, in part, reflect new educational and professional developments.

The examination will be shortened from two-and-a-half days to two days and will be restructured into four new sections.

- The Financial Accounting and Reporting section will cover generally accepted accounting principles for business enterprises.
- The Accounting and Reporting section will cover not-for-profit, governmental, managerial, and taxation accounting.
- The Auditing section will continue to cover generally accepted auditing standards.
- The Business Law and Professional Responsibilities section will incorporate content related to professional responsibilities (such as the Code of Professional Conduct) which previously appeared in the Auditing section.

The new examination will also have a greater number of objective questions, permit the use of hand-held calculators, and assess writing skills. The restructured examination has received the approval and support of the AICPA and NASBA.

Fostering Professional Development

While keeping its eye on the future of the profession, the Institute has also made dramatic progress in fostering the professional development of today's members. This past year, the Continuing Professional Education (CPE) Division scored an outstanding achievement in the quality and quantity of programs delivered to members.

■ **Reaching More Members.** Over 100,000 people attended some 3,500 AICPA seminars and conferences, while another 80,000 purchased self-study courses. Many of the programs offered this year were a direct result of research designed to assess the CPE needs of members, especially those in local CPA firms, industry, and government. The research will also help shape the content of future courses.

■ **Developing New CEAs.** This year, the Institute introduced curricula leading to a Certificate of Educational Achievement (CEA) in Governmental Accounting and Auditing. What's more, two new CEAs—one in tax and the other in financial management—are already under development. (A Personal Financial Planning CEA has been in place for the past three years.)

■ **Expanding Educational Options.** Seminars available to state CPA societies now exceed 150 titles. The self-study curricula has also grown dramatically, and is buoyed by new video and computer-based training programs.

By all measures—participant ratings, the number of new programs introduced, and revenues collected—this was a banner year. But we are not about to rest on our laurels. The Division's revised business plan focuses on maintaining program quality, enhancing customer service, establishing closer liaisons with AICPA technical divisions, improving relations with state societies, and strengthening internal operations.

Staying in Step with Member Needs

One of the Institute's most essential objectives is delivering programs and services that better serve the needs of all membership groups. From CPE to technical assistance to publications, we have expanded our services to improve the practices of members and to help them keep up with technical developments.

■ **Providing Timely Guidance.** The AICPA recognizes that practitioners need more timely guidance on industry developments. Accordingly, audit and accounting guides will be published in a loose-leaf format before the end of 1990. Doing so will allow us to update guides for specific issues without waiting to revise an entire guide or, in many cases, going through all the steps necessary for a statement of position. Also, due process and clearance procedures are being streamlined, and committees and staff will be held more accountable for timely performance. Finally, the risk alerts about current developments, begun on a pilot basis in 1990, will be extended to all industries covered by existing guides. In addition to the loose-leaf format, guides will be available in paperback and diskette form.

Enhancing Technical Competence. An Information Technology Committee was formed during the year to make recommendations concerning programs and activities that should be undertaken to assist members in this important area. Meanwhile, we were once again busy developing products to assist members as they expand the scope of their activities. Among a number of new products and services introduced this year are:

- Two new diskette-based AICPA series: *The Electronic Body of Knowledge Subscriptions* (updated periodically) and *Paperbacks on Disk* (a low-cost group of publications that are not updated).
- New software programs.
- *Original Pronouncements - Auditing Standards.*

Other new publications include financial reporting checklists on pension plans, colleges and universities, finance companies, investment companies, personal financial statements, and other entities; a book on audit supervision and review; and many other titles. In addition, the NAARS literature file was redesigned to make it easier for CPAs to search for authoritative literature. To help inform members on how to apply accounting and auditing pronouncements, the Division also responded to over 50,000 inquiries.

Extending Library Services. Technical assistance is also provided through the AICPA Library. Each year, the library staff assists 12,000 visitors and answers over 28,000 telephone requests on toll-free lines. The library produces the *Accountants' Index* and the equivalent on-line database *Accountants.* With access to numerous on-line databases plus database access to its own collection—one of the largest in the United States—the library stands ready to serve members in industry, public practice, government, and education.

Providing Quality Publications. In the publications area, the *Journal of Accountancy* introduced sections on quality review, ethics, and international issues. In addition, two columns were created to convey Institute developments to the membership: the "President's Message" and "Inside AICPA." To improve readability, we planned a larger number of shorter features, enhanced layouts with full-color photographs and graphics, and added time-saving executive summaries. A measure of the *Journal's* success is the fact that it won a certificate of merit for overall excellence in the 1989 nationwide competition sponsored by the American Society of Association Executives.

In addition to our many successes with the *Journal,* the Institute launched *Tax Practice Management*, a loose-leaf subscription service.

Improving Insurance Programs. The Institute's life insurance program flourished this year. New schedules of coverage were introduced to provide higher limits of life insurance coverage for eligible CPAs of all ages. The maximum level was increased from $500,000 to $750,000. Higher limits of coverage (up to $750,000) were also introduced under the Spouse Life Insurance program of the CPA Plan.

Partly as a result of significant improvements made last year, the Long-Term Disability Income Plan achieved the largest increase in coverage since its introduction in 1978.

Improvements were also made to the Group Insurance Plan, which now enables most firms to provide benefit levels based on three times employees' earnings. Previous amounts were based on approximately two-and-one-half times earnings. Other enhancements include liberalizing the definition of full-time employment and extending provisions related to Dependent Life Coverage for firms electing to provide such coverage.

Members continued to accept the Professional Liability Umbrella Plan (PLUS Plan). Introduced in late 1988, the Plan offers broad umbrella protection, with coverage amounts ranging from $1 million to $5 million.

■ **Reviewing Member Retirement Program.** The 1988 amendment to the AICPA Member Retirement Plan, which provided a profit-sharing option, proved to be popular with numerous firms. The option is particularly suited for new or growing firms whose profit stream may be unpredictable.

The Institute also conducted a random survey of members on other possible enhancements, the results of which are being considered by the Member Retirement Committee.

■ **Expanding Member Forums.** The AICPA has expanded its successful president's local practitioner forums to include sessions designed specifically for industry members. These forums provide members with the chance to discuss issues of importance to the profession with AICPA president Philip B. Chenok. The Institute also increased to 16 the number of member roundtables it co-sponsors with the state societies.

■ **Strengthening MAP Services.** To assist members in public practice, the Management of an Accounting Practice (MAP) Committee proposed to the Board of Directors that the Institute establish a voluntary MAP Membership Division. The Governance and Structure Evaluation and Implementation Committee is studying the proposal (see below).

The MAP Committee also published two new books: *On Your Own! How to Start Your Own CPA Firm* and *Drafting Organizational Documents: A Guide for Partnerships and PCs.* A noteworthy innovation this year is an electronic series entitled, "MAPWORKS"—a two-disk packet of organizational documents and client and personnel correspondence from the *MAP Handbook*.

■ **Enhancing Upward Mobility of Women.** The needs of female members of the profession are still under consideration by the Upward Mobility of Women Special Committee. To date, we have concentrated our efforts on educating various audiences—including state societies, CPA firms, and the media—on the steps they can take to address this important issue. In addition, the Committee is making headway in developing baseline statistics and a methodology for measuring trends in the upward mobility of women.

The Institute has also been striving to increase the number of qualified women on CPA committees, boards, and Council. While we have made progress in this area, we recognize that improvement will require continued attention in the future. Consequently, we have changed the status of the Committee to a full standing committee.

■ **Serving Industry Members.** In recognition of the special needs of members in industry, the Institute has stepped up its services in this area.

- A carefully designed program at the 1990 National Industry Conference helped attract some 670 participants, representing an all-time high for the conference. Another successful venture was the Conference for State Society Industry Committee Chairpeople, designed specifically to address the question of how best to serve the needs of industry CPAs.
- The past year also saw the initiation of a new series of selected readings for industry members. The series consists of compilations of reprints from periodicals on management and controllership topics.
- The Industry Committee has worked with the CPE Division to develop new courses for industry members, including curricula that could lead to the Certificate of Educational Achievement in Financial Management.

Finally, the Committee is developing a series of "how to" publications on specific topics of interest to industry members. The first of these—"Holding Down Health-Care Costs"—is scheduled for publication in the fall of 1990.

SOURCES AND OCCUPATIONS OF AICPA MEMBERSHIP

	1980	1982	1984	1986	1988	1990
Total AICPA Membership	161,319	188,706	218,855	240,947	272,479	295,633
Public Accounting	54.1%	52.5%	51.5%	49.1%	46.5%	44.5%
Business & Industry	35.5%	37.6%	38.4%	39.5%	39.6%	40.4%
Education	2.9%	2.5%	2.7%	2.8%	2.7%	2.7%
Government	3.3%	3.2%	3.3%	3.2%	3.6%	3.7%
Retired & Miscellaneous	4.2%	4.2%	4.1%	5.4%	7.6%	8.7%
Membership in Public Practice	87,339	99,141	112,673	118,226	126,771	131,508
Firms with one member	23.8%	23.5%	23.1%	25.1%	24.8%	24.3%
Firms with 2 to 9 members	33.1%	34.0%	34.0%	34.3%	33.6%	34.3%
Firms with 10 or more members, except the	13.0%	14.5%	15.1%	15.0%	16.4%	17.6%
25 largest firms	30.1%	28.0%	27.8%	25.6%	25.2%	23.8%

Strengthening the Division for CPA Firms

1990 has been a significant year for the Division for CPA Firms. Most importantly, AICPA members approved a bylaw amendment mandating SEC Practice Section membership by firms that audit SEC clients. The SECPS has revised initial peer review timing requirements for firms joining the Section because of the amendment. Generally, firms that were not participants in the Private Companies Practice Section program have until September 30, 1991 to complete their initial SECPS peer reviews.

The SECPS is also making arrangements to help smaller firms comply with its requirement that a preissuance concurring partner review be performed on audits of SEC clients. In addition, the SECPS has approved a revised reporting summary to the Chief Accountant of the SEC on cases closed by the Quality Control Inquiry Committee (QCIC). The QCIC—formerly known as the Special Investigations Committee—considers whether allegations of audit failure indicate the need for actions by the firms involved or by standard-setting bodies. The revised reporting summary and other actions by the QCIC and the Public Oversight Board have enabled the Commission's staff to endorse the QCIC as an effective aid in identifying weaknesses in quality control systems.

Meanwhile, the PCPS has continued to serve as advocate for the interests and insights of the CPAs who serve private companies. Other strategic PCPS initiatives include:

- Publicizing the advantages that local firms offer to clients and staff members, and the inequities involved in discriminating against local firms.
- Presenting an annual national conference and expanding its program of regional practice-oriented conferences for smaller member firms.
- Publishing a directory of PCPS member firms that have expressed an interest in performing peer reviews or quality reviews.
- Developing a series of booklets, leaflets and information bulletins that member firms can use to attract and retain clients.
- Sponsoring an exclusive client survey service to help firms evaluate and improve their client relationships.

Progress in PFP The Personal Financial Planning Division, with some 8,000 members, carried out a successful Accredited Personal Financial Specialist (APFS) Program and helped develop official Institute positions on legislative and regulatory matters.

In 1989-90, the APFS program continued to expand, with approximately 400 CPAs now carrying the prestigious designation granted only to members who satisfy specific accreditation requirements established by the Institute's Specialization Accreditation Board. To inform members about the APFS program and examination, the Division developed an APFS Candidates Handbook. Also issued this year was a practice aid on the PFP Practice Evaluation Process designed to help CPA financial planners and Accredited Personal Financial Specialists evaluate their personal financial planning practices and engagements.

In addition, the Institute has anticipated and spoken out on federal and state legislative initiatives that would affect CPA financial planners. For instance, legislation to create self-regulatory organizations (SROs) for investment advisers was submitted by the SEC to Congress and introduced in the House and Senate in July 1989. The AICPA wrote to the sponsors of the Senate bill outlining concerns about the measure and urging that the legislation be modified to "restate, reinforce, and clarify" the intent of the 76th Congress when it adopted the exemption for accountants in the Investment Advisers Act of 1940.

At the same time, the AICPA is working to amend proposed legislation aimed at increasing regulation to protect investors from fraud and abuse by financial planners. The AICPA does not believe there is a demonstrated need to regulate CPA financial planners who do not accept a commission or fee in connection with the purchase or sale of specific securities and who do not have custody of client funds for investment purposes.

In a related development, the AICPA has encouraged state CPA organizations to actively oppose state legislative efforts to regulate CPAs who provide personal financial planning services.

Finally, we continue to support the professional development of PFP members through the redesigned bimonthly newsletter *The Planner,* and through releases to the *Personal Financial Planning Manual.*

A Force for MAS Development Through a host of new products and the initiatives of the Management Advisory Services (MAS) Executive Committee, the MAS Division continued to serve its 5,000 members.

This year, the MAS Executive Committee started to revise the Statements on Standards for MAS issued in 1982 and 1983 so that they reflect the new Code of Professional Conduct and other changes in CPA consulting practice. The committee also appointed a Task Force on Litigation Services to determine what the Institute should do to aid members participating in this burgeoning area of practice.

Complementing these committee activities, the MAS Division continued publishing significant practice aids, including the first complete index of MAS publications. The index covers some 35 Statements on Standards for MAS, MAS Practice Aids, and MAS Special Reports issued between 1981 and 1988. Three new practice aids and two new special reports issued in 1989-90 will appear in subsequent revisions of the index. Also scheduled for future release are 36 new MAS practice aids and special reports, which are in varying stages of completion.

Getting Our Message Across Many of our strategic initiatives depend on the Institute's ability to communicate the right message to the right audience. Whether advocating tax simplification, updating members on professional issues, or promoting the 150-hour education requirement, the Communications Division has helped to strengthen the AICPA's voice through effective press relations, targeted publications, and strategic communications programs.

This past year, the Communications Division has supported the programs of various Institute divisions and offered members marketing assistance by issuing a record-breaking number of speeches, slide presentations, and brochures. To help CPAs attract and serve their clients more effectively, we published "Estate Planning: Protecting Your Family"—an eight-panel brochure that explains the CPA's role in estate planning. We also launched a new series of brochures targeted to small business owners. The topics covered include cash management, business planning, computer services, and business loans.

In support of the Institute's public service initiatives, we once again participated in the 1990 National Consumers Week, sponsored by the U.S. Office of Consumer Affairs. In conjunction with this national event, we produced a brochure, speech, and public service announcements on "Getting Started Financially."

This past year also saw an updated version of *The CPA Letter.* The new format is designed to improve the *Letter's* readability and usefulness. Our media relations program also marked significant progress this year. Media placements were up during tax season, when numerous CPAs appeared on local and national television programs. During the course of the year, we also arranged a host of radio and television interviews on key professional issues with Institute representatives. Overall, the news bureau had dealings with more than 2,000 news media representatives.

The profession also won increased visibility when the communications program for the SECPS vote and the Money Management series that appears in some 1,300 newspapers across the country took top awards in competitions in the field of public relations.

Another achievement this year was the Institute's program to communicate the importance of improving federal financial management. In support of this effort, the AICPA issued a number of publications, placed articles and editorials in leading publications, released a powerful advertisement on the subject, and coordinated a successful colloquium for politicians, business leaders, and the media.

The Division also marshalled its resources to encourage support of the 150-hour education requirement. This past year, we produced a video presentation, developed speeches for state CPA societies and AICPA executive staff, and successfully placed articles emphasizing the importance of the new requirement.

Addressing Governance and Structure

The Special Committee on Governance and Structure completed its two-year study in February. The Committee's report made more than 40 recommendations involving virtually every aspect of the organization.

The committee's recommendations were discussed at the regional council meetings in March. They are being evaluated by a board committee that will consider, among other things, their immediate or long-term need, likelihood of acceptance by those involved, cost-benefit of the proposal, and probability of authorization under the bylaws.

Looking Ahead

The strength of our profession tomorrow depends on the steps we take today. To ensure that we are moving in the right direction, the AICPA has committed itself to following a carefully developed strategic plan.

In 1989-90, we began implementing some of the more significant recommendations that emerged during the first cycle of strategic planning. Most notably, we have taken steps to increase member support in the areas of technology and education. We have also worked to improve the relevance of financial standards.

The second cycle of planning is already under way. We are currently revising our view of the future environment in which the profession will be operating. Based on our research and deliberations, the driving forces that will affect the profession in the coming years are globalization, technology, complexity, competition, and the importance of human resources. This vision of the future will guide the development of our strategic plan.

Institute Operations For fiscal 1989–90, net revenue exceeded expenses by $890,000. This performance exceeded budget by $640,000. While revenue was under budget by $2,686,000, a favorable result was achieved because expenses were $3,326,000 less than budget provisions.

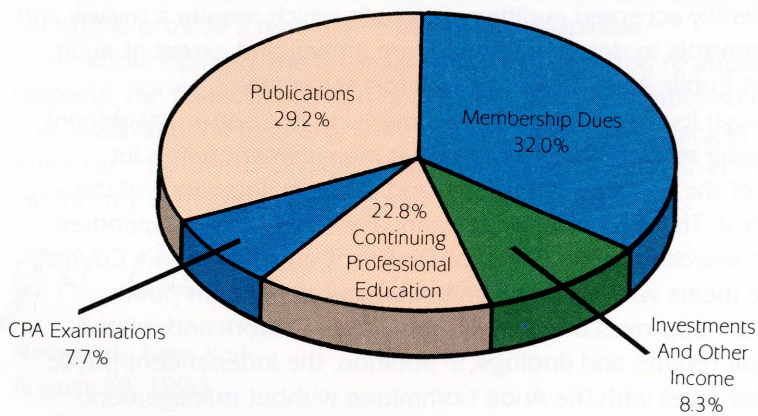
Gross margin from publication sales was almost $3.8 million below budget. Most of the variance was caused by publications that were delayed or canceled. Self-study products and conferences were the major factors in a $1,070,000 favorable gross margin contribution from Continuing Professional Education.

Expenses related to postage and shipping, occupancy costs, commercial services, printing and paper, promotional efforts and salaries were all significantly below budget. The costs of member travel, microcomputer support and telephone services exceeded budget.

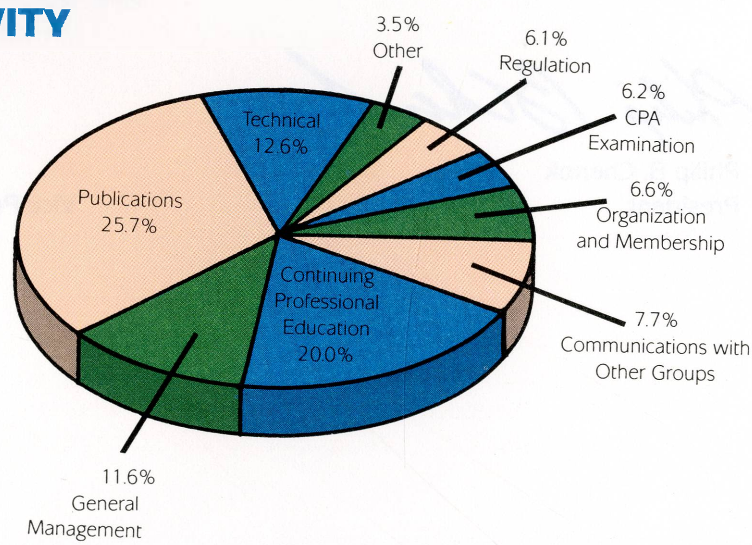
Overall, cost control efforts in 1989–90 were effective.

The budget for 1990–91 provides for a modest excess of revenue over expenses without the need for a dues increase.

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 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 audit the financial statements of the above entities and issue a report thereon. They have informed management the audits were conducted in accordance with generally accepted auditing standards which require a review and evaluation of internal accounting controls to determine the nature, timing and extent of audit testing. The Report of Independent Public Accountants follows this statement.

The Board of Directors, through its Audit Committee (comprising five 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 accountant.

Philip B. Chenok
President

Donald L. Adams
Vice President, Finance & Administration

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, 1990 and 1989, 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, 1990 and 1989, 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, 1990 and 1989, 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
August 28, 1990

Balance Sheet

	July 31 1990	July 31 1989
	($000)	
Assets:		
Cash	$ 207	$ 276
Marketable securities, at lower of cost or market	21,540	20,854
Accounts receivable (less an allowance for doubtful accounts: 1990, $382,000; 1989, $366,000)	9,638	9,688
Inventories	3,559	3,231
Deferred costs and prepaid expenses	6,820	5,180
Furniture, equipment, and leasehold improvements	9,090	6,927
	50,854	46,156
Funds held for Division for CPA Firms	3,506	2,810
	$54,360	$48,966
Liabilities and Fund Balances:		
Liabilities and deferred revenue:		
Accounts payable and other liabilities	$ 9,719	$ 9,884
Advance dues	14,594	11,129
Unearned revenue from subscriptions and other sources	7,537	7,029
	31,850	28,042
Funds held for Division for CPA Firms	3,506	2,810
General fund balances	19,004	18,114
	$54,360	$48,966

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

Statement of Revenue and Expenses

	Year Ended July 31 1990	1989
	($000)	
Revenue:		
Dues	$ 32,428	$28,603
Publications	29,669	28,803
Continuing professional education	23,122	21,456
CPA examinations	7,808	7,696
Investment and sundry income	4,894	4,818
Conferences	3,543	2,855
	101,464	94,231
Expenses (see also Summary of Expenses by Activity):		
Salaries	29,285	26,386
Cost of sales	21,106	20,216
Occupancy	8,578	7,101
Meetings and travel	6,420	5,995
Postage and shipping	6,030	5,900
Professional services	3,816	5,128
Printing and paper	5,166	5,084
Personnel costs	5,622	4,835
Promotions and advertising	3,678	3,992
Commercial services	1,784	1,835
Support for professional organizations	1,375	1,346
Equipment rental and maintenance	1,120	1,194
Telephone	1,244	1,078
Office and computer supplies	1,248	955
Mailing services	734	777
Fees	653	613
Software development	566	215
Income taxes	393	506
Other	1,756	1,492
	100,574	94,648
Excess (deficiency) of revenue over expenses	$ 890	$ (417)

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 1990	Year Ended July 31 1989
	($000)	
CPA examinations	$ 6,216	$ 6,021
Publications:		
Produced for sale	20,993	19,606
Distributed to members and others	4,884	5,155
Continuing professional education	20,164	18,169
Conferences	2,720	2,389
Technical:		
Accounting and review services	101	51
Accounting standards	1,248	991
Auditing standards	1,860	1,731
Federal taxation	2,691	2,654
Management advisory services	780	734
International practice	736	739
Technical assistance to members	2,226	2,145
Library	1,458	1,405
NAARS program	704	730
Financial Accounting Foundation support	573	545
Accountants' legal liability	256	344
Regulation:		
Ethics and trial board	1,656	1,438
State legislation	528	489
Division for CPA Firms	882	744
Quality review programs	3,063	2,158
Organization and membership:		
Board, council and annual meetings	1,944	1,880
Nominations and committee appointments	160	122
Communications with members	351	367
Membership services	3,252	3,203
Special organizational studies	945	930
Communications with other groups:		
Public relations	1,747	2,703
State societies	247	369
Universities	1,352	908
Federal government	4,421	4,375
Assistance programs for minority students	753	692
General management	11,663	10,861
	$100,574	$94,648

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	
	1990	1989
	($000)	
General Fund:		
Fund balances, beginning of year	$18,114	$18,511
Excess (deficiency) of revenue over expenses	890	(417)
Unrealized gain on investments	—	20
Fund balances, end of year	$19,004	$18,114

American Institute of Certified Public Accountants

Statement of Cash Flows

	Year Ended July 31	
	1990	1989
	($000)	
Decrease in Cash:		
Cash Flows from Operating Activities:		
Cash received from members and customers	$102,974	$93,243
Interest and dividends received	1,809	1,975
Cash paid to suppliers and employees	(100,551)	(93,153)
Income taxes paid	(470)	(453)
Income taxes refunded	400	10
Net cash provided by operating activities	4,162	1,622
Cash Flows from Investing Activities:		
Payments for purchase of equipment	(4,141)	(2,550)
Payments for purchase of marketable securities	(13,475)	(30,785)
Proceeds from sale of marketable securities	13,385	31,696
Net cash used in investing activities	(4,231)	(1,639)
Net decrease in cash	(69)	(17)
Cash, beginning of year	276	293
Cash, end of year	$ 207	$ 276

Reconciliation of excess (deficiency) of revenue over expenses to net cash provided by operating activities:		
Excess (deficiency) of revenue over expenses	$ 890	$ (417)
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided by operating activities:		
Depreciation and amortization	4,124	3,529
Gain on sale of marketable securities	(596)	(194)
Amortization of subscription revenue	(2,976)	(3,417)
Provision for losses on accounts receivable	108	124
Provision for obsolete inventories	320	600
(Increase) decrease in:		
Accounts receivable	(58)	551
Inventories	(648)	(1,525)
Deferred costs and prepaid expenses	(3,786)	(2,510)
Increase (decrease) in:		
Accounts payable and other liabilities	(165)	834
Advance dues	3,465	2,415
Unearned revenue from subscriptions and other sources	3,484	1,632
Total adjustments	3,272	2,039
Net cash provided by operating activities	$ 4,162	$ 1,622

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.	
	1990	1989	1990	1989	1990	1989
	($000)		($000)		($000)	
Assets:						
Cash	$ 4	$ 1	$ 6	$ 7	$ 2	$ 7
Marketable securities, at lower of cost or market*	2,533	2,532	1,230	1,387	1,008	904
Notes and mortgages receivable (net of allowance for doubtful collections 1990, $47,000; 1989, $51,000)	—	—	376	331	—	—
Dues receivable	—	—	—	—	1,221	1,087
Other receivables	37	29	24	22	16	14
	$2,574	$2,562	$1,636	$1,747	$2,247	$2,012
Liabilities and Fund Balances:						
Liabilities and deferred revenue:						
Accounts payable	$ 33	$ 55	$ 6	$ 5	$ 233	$ 269
Advance dues	—	—	—	—	1,310	1,221
Scholarships payable	408	380	—	—	—	—
	441	435	6	5	1,543	1,490
Fund balances:						
General	36	34	1,630	1,742	704	522
Library	914	909	—	—	—	—
John L. Carey Scholarship Fund	443	415	—	—	—	—
Accounting Education Fund for Disadvantaged Students	720	753	—	—	—	—
E.W. Sells Award Fund	19	16	—	—	—	—
Sydney Orbach Fund	1	—	—	—	—	—
	2,133	2,127	1,630	1,742	704	522
	$2,574	$2,562	$1,636	$1,747	$2,247	$2,012
***NOTE:**						
Marketable securities at market	$2,602	$2,608	$1,320	$1,478	$1,061	$ 967

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.	
	1990	1989	1990	1989	1990	1989
	($000)		($000)		($000)	
Additions:						
Investments and sundry income	$ 176	$ 175	$ 87	$ 109	$ 92	$ 115
Gain on sale of securities	46	15	61	21	33	12
Contributions/dues	477	465	171	168	3,065	2,962
	699	655	319	298	3,190	3,089
Deductions:						
Support/scholarships	682	620	—	—	2,628	2,621
Assistance to members and families	—	—	397	312	—	—
FASB subscription service	—	—	—	—	200	200
Other	11	5	34	34	180	193
	693	625	431	346	3,008	3,014
Increase (decrease) in fund balances	6	30	(112)	(48)	182	75
Fund balances, beginning of year	2,127	2,094	1,742	1,788	522	446
Unrealized gain on investments	—	3	—	2	—	1
Fund balances, end of year	$2,133	$2,127	$1,630	$1,742	$ 704	$ 522

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.

■Fees paid to consulting firms that develop computer systems used for the Institute's internal management and recordkeeping are treated as deferred costs and amortized, on a straight-line method, over a five-year period that begins when the system becomes operational.

■Certain accounts for 1989 were reclassified to conform to the 1990 presentation.

Notes to Financial Statements July 31, 1990 and 1989

1. Marketable Securities

Marketable securities, at cost, at July 31 consist of:

	1990	1989
	($000)	
U.S. Treasury bonds and notes	$ 5,561	$ 4,040
Bonds, notes, and money market funds	10,070	11,697
Equities	5,909	5,117
	$21,540	$20,854
Market value	$22,534	$22,250

2. Inventories

Inventories at July 31 consist of:

	1990	1989
	($000)	
Paper and material stock	$ 713	$ 716
Publications in process	700	539
Printed publications and course material	2,146	1,976
	$ 3,559	$ 3,231

3. Furniture, Equipment, and Leasehold Improvements

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

	1990	1989
	($000)	
Furniture and equipment	$ 9,665	$10,162
Leasehold improvements	6,601	5,313
	16,266	15,475
Less accumulated depreciation and amortization	7,176	8,548
	$ 9,090	$ 6,927

Depreciation of furniture and equipment and amortization of leasehold improvements for the years ended July 31, 1990 and 1989 were $1,978,000 and $1,533,000.

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 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, 1990 were $28,067,000. This amount does not include future escalations for real estate taxes and building operating expenses. Minimum rental commitments are:

Year Ending July 31, in thousands

1991	$ 5,459
1992	5,449
1993	5,202
1994	3,992
1995	1,884
Years subsequent to 1995	6,081
	$28,067

Rental expense for the years ended July 31, 1990 and 1989 were $6,871,000 and $6,250,000.

6. Retirement Plan
The Institute sponsors a noncontributory defined benefit pension plan for substantially all employees. Pension benefits 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:

	1990	1989
	($000)	
Service cost—benefits earned during the year	$ 937	$ 976
Interest cost on projected benefit obligation	1,221	1,090
Return on plan assets:		
Actual	(2,276)	(3,181)
Deferred	354	1,452
Net amortization of unrecognized net asset	(274)	(274)
Net amortization of unrecognized prior service cost and net (gain) or loss	9	
	$ (29)	$ 63

Funded status of the plan:

	May 1 1990	May 1 1989
	($000)	
Actuarial present value of projected benefit obligation, based on employment service to date and current salary levels:		
Vested benefits	$12,431	$10,348
Non-vested benefits	739	784
Additional amounts related to projected salary increases	3,715	3,484
Projected benefit obligation	$16,885	$14,616
Assets available for benefits:		
Plan assets at fair value	$24,779	$23,074
Accrued pension cost	34	63
	$24,813	$23,137
Assets in excess of projected benefit obligation:		
Unamortized portion of amount existing at date FAS No. 87 was adopted	$ 3,707	$ 3,981
Amount arising subsequent to adoption of FAS No. 87	6,101	6,007
Unrecognized prior service cost	(1,880)	(1,467)
	$ 7,928	$ 8,521

Assets of the plan are invested primarily in bonds, stocks and money market funds.

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.

Beginning in 1990, unrecognized prior service cost and net investment and actuarial (gains) or losses realized over those assumed are being recognized in determining pension expense over the remaining service period of 12 years.

The discount rate used to determine the actuarial present value of the projected benefit obligation was 8½% as of May 1, 1990 and 1989. The expected long-term rate of return on plan assets used in determining net pension expense for fiscal years ended July 31, 1990 and 1989 was 9½%. The assumed rate of increase in future compensation levels was 5½% for both 1990 and 1989.

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 $282,000 and $228,000 for the years ended July 31, 1990 and 1989.

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 $2,340,000 for the calendar year 1990.

The ARA also makes a best efforts commitment to raise funds for support of the Governmental Accounting Standards Board (GASB). The commitment is $440,000 for the calendar year 1990. 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.

	July 31, 1990		
	Private Companies Practice Section	**SEC Practice Section**	**Total**
		($000)	
Cash	$ 7	$ 8	$ 15
Marketable securities	1,320	2,171	3,491
	$1,327	$2,179	$3,506

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

	July 31, 1990	
Balance Sheet	**Private Companies Practice Section**	**SEC Practice Section**
	($000)	
Assets:		
Cash	$ 7	$ 8
Marketable securities at lower of cost or market*	1,320	2,171
Dues and other receivables	47	104
	$1,374	$2,283
Liabilities and Fund Balances:		
Accounts payable	$ 16	$ 135
Advance dues	308	691
Fund balances	1,050	1,457
	$1,374	$2,283
***NOTE:**		
Marketable securities at market	$1,336	$2,213

	Year Ended July 31, 1990	
Statement of Changes in Fund Balances	**Private Companies Practice Section**	**SEC Practice Section**
	($000)	
Additions:		
Dues	$ 701	$1,513
Gain on sale of securities	9	25
Investment and sundry income	156	143
	866	1,681
Deductions:		
Expenses of Public Oversight Board:		
Salaries and fees	—	883
Administrative expenses	—	470
	—	1,353
Peer review manuals	85	24
Public relations program	5	5
Printing	49	91
Membership directory	5	5
Administrative and other expenses	320	42
	464	1,520
Net increase in funds	402	161
Fund balances, beginning of year	648	1,296
Fund balances, end of year	$1,050	$1,457

In addition to the expenses shown above, the Institute incurred expenses during the years ended July 31, 1990 and 1989 in support of the Division and in connection with related quality review programs. These expenses are included in the accompanying Summary of Expenses by Activity.

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