

1991

AICPA annual report 1991; Professionalism performance, progress

American Institute of Certified Public Accountants

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American Institute of Certified Public Accountants, "AICPA annual report 1991; Professionalism performance, progress" (1991).
AICPA Annual Reports. 17.
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Professionalism

Performance

Progress

AICPA

Professionalism

Performance

Progress

AICPA

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 the highest quality professional services. In fulfilling its mission, the AICPA gives priority to those areas where public reliance on CPA skills is most significant.

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Strategic Thrusts for the Future

■ Critical Thrusts...

- Work aggressively to attract quality people into the profession and the Institute.
- Work to provide uniform, reciprocal certification requirements.
- Emphasize the need to continually improve the quality and the performance of professional services.
- Undertake greater efforts to emphasize the need for members' adherence to the ethical standards of integrity and objectivity.
- Redesign financial reporting to make it more relevant, understandable, and beneficial to users.
- Work to eliminate members' unreasonable liability.
- Develop a quality program for the AICPA.

■ High-Priority Thrusts...

- Actively work to recruit minorities into the profession and enhance their upward mobility.
- Actively seek to improve the quality of accounting education and promote the availability of quality accounting programs.
- Actively work to enhance the upward mobility of women in the profession.
- Assist members as they continue to be impacted by activities in the international arena.
- Assist members as they expand the scope of their activities in specialized areas.
- Develop a major focus on the impact of technology on the profession.
- Assist members in expanding the attest function to new types of information and increasing the value of attest services.
- Expand efforts to assist members in providing services in the environmental area.
- Continue to seek ways to detect material fraud.
- Help accounting firms to meet the managerial challenges of a changing economic and demographic environment.
- Enhance programs that give the Institute more political strength.
- Enhance communications with members.
- Enhance communications with the public regarding the professionalism and competency of members.

This past year, the nation faced turbulence and challenge. With the war in the Persian Gulf and a recession at home, many of us have had to rethink our priorities and recycle our energies. Still, the challenges of the past year have propelled us ahead and we have accomplished much.

We have emphatically demonstrated your commitment to professionalism through successful implementation of the Plan to Restructure Professional Standards. We have scored legislative victories and improved our information flow to members. And we have renewed our commitment to progress with an updated strategic plan for the future.

Professionalism

With the Plan to Restructure Professional Standards now firmly in place, we have taken steps to enhance the profession's ability to fulfill its responsibilities to the public, to the business community, and to itself.

Working with the state CPA societies, we have made solid progress on key issues affecting the profession and the quality of CPA practices, including implementation of the quality review program and enactment of the 150-hour education requirement. Thousands of firms have already demonstrated their commitment to excellence by participating in the quality review process. At the same time, the 150-hour education requirement for CPAs entering the profession after the year 2000 is now a reality in 18 states. We have realized equal success in the areas of continuing professional education standards and uniformity of regulation of the profession.

Performance

Performance is best measured by the number and quality of accomplishments an organization achieves. By that standard, this was a very good year indeed.

We were instrumental in winning passage of the Chief Financial Officers Act of 1990, and made our voices heard on other legislative issues affecting CPAs and their ability to practice — including lobbying for a revision of the rules on joint and several liability and opposing increased regulation of personal financial planners.

Working to educate the judiciary about the role of financial statements in litigation, we sponsored a special conference for 36 federal and state court judges from around the country. To better prepare auditors for the challenges they face in their daily work, we issued timely audit risk alerts. What's more, we staged the first Tax Simplification Day on April 16, 1991, in Washington, D.C., taking our message to the forefront of the media's attention.

Progress

Looking to the future, we have laid the groundwork for strengthening our presence in the business community and in the public arena. To do this, we are going back to basics, focusing on the work we do and how we can do it more efficiently.

We formed special committees to address two key issues. One is charged with studying the financial reporting process to make it more relevant and beneficial to users. The other is reexamining the concept of independence to provide guidance as to how auditors can maintain objectivity in the face of an increasingly complex business environment.

Among a number of other significant recommendations authorized by the Board of Directors and Council this year were the establishment of a Management Accounting Division, creation of a Members in Industry Executive Committee, designation of the SEC Practice Section (SECPS) Executive Committee as a senior technical committee, development

of the Private Companies Practice Executive Committee to better meet the needs of medium- and small-sized firms, and the creation of an Information Technology Membership Division (effective August 1, 1991).

In the coming years we will need to continue adapting to economic, technical, and regulatory changes. With our business environment transforming itself on what often seems a daily basis, CPAs will need more guidance and more flexibility in the way they practice. For this reason, we are proposing a change to Rule 505 (Form of Organization and Name) of the Institute's Code of Professional Conduct. The proposed modification to Rule 505 would allow members to practice in any form of organization permitted by state law or regulation. Members will receive a mail

ballot on this and other issues in November. We urge you to vote in favor of this proposition, which is essential to the profession's continuing development.

Progress doesn't come without cost. But we are working hard to contain cost. For the third straight year, we have held the line on membership dues. Moreover, we plan to move a large part of our operations to a location in Jersey City, New Jersey, next summer. Not only will this move enable us to operate more cost-effectively, but it will also provide room for future expansion—without any interruption in service to our members.

In summary, we have had a very good year. We intend to have an equally strong future. Professionalism. Performance. Progress. A record and a reputation to be proud of.



Thomas W. Rimerman
Chairman of the Board



Philip B. Chenok
President



Professionalism

**The conduct, aims, standards
and qualities that distinguish a vocation.**

Few professions have voluntarily undertaken as rigorous a commitment to professionalism as CPAs. Under the Plan to Restructure Professional Standards, the AICPA's more than 300,000 members have repeatedly elected to meet the challenges of quality service, continuing professional education, and exacting self-regulation.

Ensuring Quality

The quality review process and the Division for CPA Firms' peer review programs play a key role in ensuring that CPAs continue to meet the profession's high practice standards. With the cooperation of the state CPA societies, our members, and the Institute staff, the programs are now firmly established. In the past year alone, approximately 5,900 firms participated in quality and peer reviews. Over 10,000 quality and peer reviews are scheduled for the upcoming year.

Monitoring Compliance with Standards

CPAs practice under one of the most stringent codes of professional conduct in force today. Promoting and monitoring compliance with these standards is just one of the responsibilities of the AICPA's Professional Ethics Executive Committee.

The Ethics Division continued its periodic meetings with representatives of the Inspectors General, the Department of Labor, and the General Accounting Office to discuss the results of ethics investigations stemming from agency referrals. During the past year,

the division completed more than 300 investigations of members who allegedly failed to comply with professional standards. The majority of the members who were found to have violated those standards were required to undergo a program of specified continuing professional education, as well as follow-up reviews of their work.

Additionally, the committee issued a number of changes to the Code of Professional Conduct, and exposed for comment a significant revision of the independence standards relating to loans from clients. The committee also developed new rules on contingent fees and commissions in response to the Institute's agreement with the Federal Trade Commission.

Violations of the Institute's Code and bylaws are taken seriously. Between October 21, 1990, and October 27, 1991, the Joint Trial Board adjudicated ethics charges against 42 AICPA and/or state society members. In addition, disciplinary action under the automatic disciplinary provisions of the Institute's bylaws were taken against 22 members, resulting in 18 expulsions and four suspensions.

Elevating Educational Standards

Continued excellence in technical expertise requires education—long a cornerstone of the CPA profession. Last year, AICPA members were challenged to meet enhanced continuing professional education (CPE) requirements.

Members met that challenge in impressive numbers. A survey of members not in public practice showed that almost 90 percent satisfied the CPE requirements in 1990. The majority of the remainder indicated they would meet the requirements if the deadline were extended—which has since been done.

To ensure that members derive the most benefit from CPE, the Institute substantially increased the quality, quantity, and variety of its programs this past year. More than 50 new seminars and self-study programs were added. Members were pleased with the results, rating the AICPA's CPE programs higher than those available elsewhere. The most notable

aspects of CPE were, according to attendees, enhancements in the instructional design, practical orientation, and overall quality of instruction.

Two new *certificate of educational achievement* programs were introduced, one in “Financial Management” and the other in “Tax Planning and Advising for Closely Held Businesses.” To increase the convenience of CPE, we also offered more courses in a computer-assisted format.

Equally important in view of the recession, the Institute held the line on prices for the third straight year. Finding ways to serve members better and more cost-effectively is the theme for future plans in the CPE area.

The Future Class of CPAs

The health of the profession depends not only on the professionalism of today’s CPAs, but also on the caliber of those who enter the profession in the future. With an eye on tomorrow, the AICPA has stepped up its efforts to promote the 150-hour education requirement and to recruit new talent into the accounting profession.

Supporting New Education Requirements

Legislative momentum continues in support of the Institute’s membership requirement for

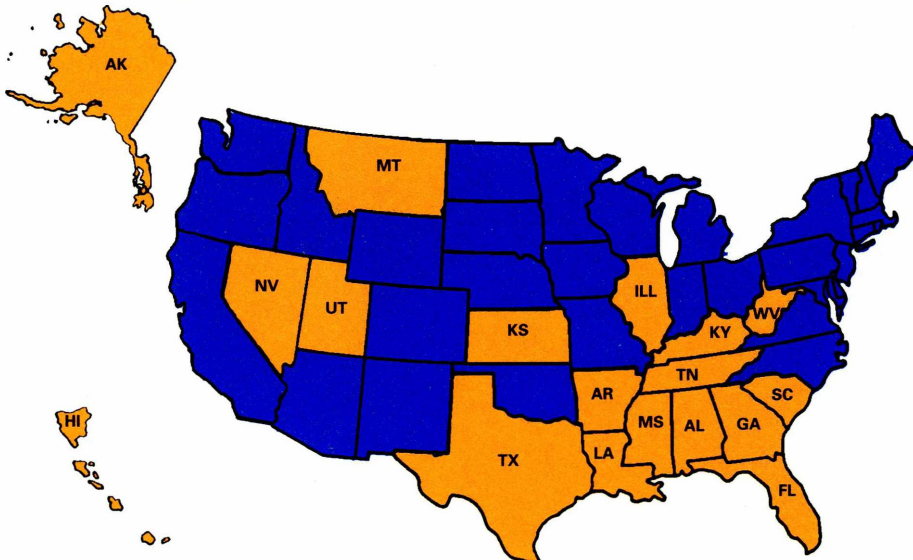
150 semester hours of education for those entering the profession after the year 2000. To date, 18 states have adopted the requirement, either through legislation or regulation. They are Alabama, Alaska, Arkansas, Florida, Georgia, Hawaii, Illinois, Kansas, Kentucky, Louisiana, Mississippi, Montana, Nevada, South Carolina, Tennessee, Texas, Utah, and West Virginia. More states are expected to consider legislation in 1992–93.

To achieve uniformity and assist with the mobility of CPAs across state lines, the AICPA and the National Association of State Boards of Accountancy (NASBA) published guidelines that will provide the state boards with model language for legislation and associated rules and regulations.

Recruiting the Best

To attract the highest caliber of students into the profession, we are working to increase student awareness of accounting careers. For example, we produced a recruitment video to familiarize college students with career opportunities in the accounting profession. Titled “A License to Succeed,” the video and an accompanying brochure were sent to administrators of accounting programs. Also introduced this year was the *Accounting Careers* newsletter for students, which was distributed through the state CPA societies.

Status of Legislative Initiatives



As of Oct 1, 1991, the 150-Hour Requirement had been passed by 18 states.

To help the profession fine-tune its recruitment efforts over the next several years, the AICPA sponsored a study to identify the factors that influence career choices and to determine students' awareness of the accounting profession. The survey of high school and college students, conducted by the Gallup Organization, revealed useful information about the career-decision process and students' perceptions of the profession. The survey information is being used to develop a marketing program for the profession.

Positioning for the Future

To further enhance the quality of accounting education, the Institute adopted a new "Position Statement on Education" that calls for improving classroom teaching skills, broadening the definition of research, and encouraging professional service. We also urged colleges and universities to focus educational programs on real-life rather than theoretical skills. To support this position, the Institute is undertaking a program to:

- Encourage other organizations to support the objectives listed in the Institute's position statement.
- Urge organizations and individuals who financially support higher education accounting programs to earmark their contributions for teaching-oriented activities, applied research on accounting issues, and professional involvement.
- Support the development of accreditation standards that recognize the importance of the teaching function in business and

accounting programs.

- Offer CPE courses and seminars specifically designed for accounting faculty.
- Encourage innovation and timeliness in accounting curricula.

Finally, to help alleviate the shortage of qualified accounting faculty, the Institute awarded \$210,000 in grants to 42 candidates in accounting doctoral programs.

Working for Uniformity

A committee of representatives from the AICPA, National Association of State Boards of Accountancy (NASBA) and Certified Public Accountants' Society Executives Association (CPA/SEA) worked hard over the past year to promote uniform certification requirements, resulting in the issuance of an exposure draft of the *Proposed Uniform Accountancy Act*. An update of the 1984 AICPA/NASBA Model Public Accountancy Bill, the Act seeks to eliminate the differing requirements in 54 jurisdictions governing CPA certification and other aspects of state accountancy legislation that form artificial barriers to the interstate practice and mobility of CPAs.

On the heels of the United States/Canadian Free Trade Agreement, representatives of the AICPA, NASBA and the Canadian Institute of Chartered Accountants (CICA) met to develop a framework for reciprocity between the United States and Canada. The organizations hope to agree on guidelines for mutual reciprocity that can be offered to the states and provinces for implementation.

Performance

**The act of accomplishing a deed
or fulfilling a promise.**

This year, the Institute remained a force for change in areas that directly affect the CPA's ability to serve the public interest. From legislative accomplishments to the issuance of timely audit risk alerts, the Institute has kept the concerns of members at the forefront of its activities.

Making a Difference on Capitol Hill

Enhancing the profession's political strength is no small feat. But with the support of members and state societies, we were able to effectively represent the profession on a number of key issues. As in past years, political and legislative strides took us to new frontiers in our nation's capital—and across the country.



Opening a Channel to Congress

A major factor affecting legislative success is the relationship between the profession and members of Congress. At the heart of this relationship are the members who serve as congressional contacts throughout the country. They have assisted in promoting the Institute's legislative agenda, from improving federal financial management to revising the rules on joint and several liability.

During the past year, materials were developed to assist federal key person coordinators and contacts in each state in understanding and carrying out their responsibilities. An annual Federal Key Person Coordinator's Conference also helped define future directions for these important individuals.

Improving Federal Financial Management

One of our most significant legislative victories this past year was the enactment of the Chief Financial Officers Act of 1990—a law which is designed to improve the federal government's management of its financial affairs. The act establishes a deputy director for the Office of Management and Budget (OMB), creates an Office of Federal Financial Management within the OMB, and requires CFOs for every major department and agency of the federal government.

While the new law does not provide everything the profession sought, it is a significant step in the right direction. The Institute continues to monitor implementation of the new law to ensure that sufficient funds are being appropriated to carry out all its provisions.

Limiting Liability

The AICPA is striving to reduce unreasonable liability exposure for members. Along with the state societies, we are working to enact legislation that would:

- Revise the rules on joint and several liability.
- Restrict the ability of unforeseen third parties to sue accountants for negligence.
- Limit punitive damage awards.

In addition, the Institute issued a paper that recommended passage of model legislation to create a privilege for quality and peer review materials. The legislation was introduced and passed this year in Iowa, Montana, Tennessee, Mississippi, and Florida.

Finally, the AICPA continues to file "Friend of the Court" briefs to influence state court decisions on the privity issue. In Montana, the Supreme Court adopted a modified Credit Alliance standard in a case in which the Institute's privity position was advanced.

Expanding the Auditor's Role in Banking

Legislation under consideration by Congress to reform the federal deposit insurance system and the banking industry, H.R. 6 and S. 543, would expand the auditor's role in the banking industry.

Some of the provisions stem from a report of the General Accounting Office (GAO) that examined 39 failed banks. Among the banks examined for the report, 23 had not undergone outside audits for a year or more prior to their failures, and four had never been audited. In the report, the GAO recommended that "only independent public accounting firms that are subject to the accounting profession's peer review programs should be permitted to audit banks."

While the AICPA approves the thrust of the GAO's report, we are concerned about recommendations that regulators become more involved in the audit process, including having the power to remove auditors. The Institute will continue to monitor developments in this area.

Amending ERISA

The AICPA has endorsed legislation introduced in the Senate to improve audits of private pension plans. If enacted, the bill would require full, comprehensive audits of the plans. Other legislative proposals are being considered, including mandatory peer reviews for all independent accountants who do ERISA audits and some form of direct reporting by auditors to the Department of Labor regarding ERISA violations. The

Institute has stressed that our current practice monitoring programs should qualify and that no additional regulatory requirement be imposed.

Keeping an Eye on the Insurance Industry

The financial condition of insurance companies remains a high priority of the House Energy and Commerce Committee, which has warned that the industry could face a solvency crisis rivaling that of the savings and loan industry. The Committee is developing a proposal regarding federal regulation of the industry. The AICPA is monitoring this action.

Upcoming Initiatives

Several legislative proposals that failed to pass during the 101st Congress are expected to require action in 1991.

First, legislation expanding auditors' responsibilities in auditing public companies, H.R. 3159, was introduced by Reps. Ron Wyden (D-Ore.) and Edward Markey (D-Mass.). Auditors would be required to report illegal acts to the Securities and Exchange Commission (SEC) if the company failed to do so. It would also require the SEC to prescribe methods to be used by the auditor to detect illegal acts, identify related party transactions, and evaluate the company's ability to continue as a going concern during the next fiscal year. An attempt could be made to attach similar reporting requirements to legislation being considered by Congress to reform the deposit insurance system and banking industry. The Institute will work to ensure that any such provisions are within the competency of auditors to perform and consistent with auditing literature. The bill also directs the SEC to conduct a study to determine the extent to which registrants comply with the internal control requirements of the Foreign Corrupt Practices Act. Included in the study would be a determination if compliance would be improved by a requirement for annual public reports by management and a report by the public accountant on the adequacy of internal controls.

At the same time, the AICPA is actively opposing the inclusion of CPAs in

legislation that would require all financial planners to register as investment advisers with the SEC. The bill, which would increase the practitioner's liability by providing a "private right of action" for damages resulting from violations of the Investment Advisers Act of 1940, has been reintroduced in the House.

The Institute is reevaluating its support of legislation to amend the civil provisions of the Racketeer Influenced and Corrupt Organizations (RICO) Act following action by the House Judiciary Committee. The Judiciary Committee amended the bill to require juries instead of judges to determine instances in which behavior is so egregious that the RICO Act would apply, thus prolonging the judicial process. In addition, the category of institution to which such egregious behavior, in cases of fraud, is presumed to apply was expanded from savings and loans to include, among others, federally insured depository institutions, bank holding companies and credit unions.

A Force for Technical Efficiency

To help members maintain their high level of technical efficiency, the Institute must provide timely guidance for practitioners on auditing and accounting standards. At the same time, we have an obligation to enhance the relevancy and public understanding of the financial reporting process. Over the past year, we have taken steps to speed up and expand our efforts in both areas.

Helping Auditors

The Auditing Standards Division has issued Statements on Auditing Standards (SASs) covering such vital issues as the internal audit function, reporting when there is doubt about an entity's ability to continue as a going concern, and communicating with regulatory agencies about matters affecting interim financial information.

In addition, 18 *Audit Risk Alerts* were published to inform practitioners of matters that may affect year-end audits in such industries as banking, construction, finance, health care, life and health insurance, and savings

and loan associations. The series also included *Audit Risk Alert—1990*, applicable to all audited entities, which provided an update of current economic, industry, regulatory, and accounting and auditing matters.

To further assist practitioners, the division published *Audit, Review, and Compilation Considerations When a Predecessor Accountant Has Ceased Operations*. This notice includes questions and answers on communication requirements, availability of workpapers, and the responsibilities of auditors.

Another development this past year was the creation of two new task forces. The SAS No. 54 Guidance Task Force will consider issues relating to the auditor's responsibility for detecting illegal acts. The Compliance Attestation Guidance Task Force will develop guidelines for auditors reporting on clients' compliance with laws and regulations.

Offering Guidance on Accounting Principles

As part of our commitment to play a significant role in the accounting standards setting process, the Institute develops guidance on matters not being addressed by the Financial Accounting Standards Board (FASB).

Over the past year, we issued statements on such matters as financial reporting by entities reorganizing under the bankruptcy code, and disclosure by financial institutions that hold debt securities as assets. In addition, we updated an audit and accounting guide for property and liability insurance companies, and issued practice bulletins and exposure drafts on a number of key issues. We also released a guide on auditing and financial reporting for homeowners' associations, condominiums, and housing cooperations.

Reviewing the Financial Reporting Model

This year, the Institute sponsored a symposium on financial reporting and standards setting at the University of Pennsylvania's Wharton School. The participants in the symposium, who represented a variety of constituent communities served by the FASB, recommended an evolutionary "re-engineering" of the current financial reporting model.

The Institute has subsequently created a special committee dedicated to maintaining relevancy in the financial reporting process. The special committee's charge is to "recommend the nature and extent of information to be made available to others by management and the extent to which auditors might report on those various elements of information."

Educating the Judiciary

In 1990, the AICPA sponsored a very successful judicial conference on "Financial Statements in the Court Room" in conjunction with the National Judicial College of Reno, Nevada. Approximately 36 federal and state court judges from across the country attended.

The conference was developed to assist the judiciary in understanding financial information, which can play a key role in litigation. The program also addressed some of the common misperceptions about financial reporting. The AICPA plans to offer the program to individual states for presentation to state court judges and to sponsor the program for federal court judges in conjunction with the Federal Judicial Center.

Improving Internal Control

A committee of organizations that sponsored the National Commission on Fraudulent Financial Reporting (Treadway Commission) is monitoring the implementation of recommendations to curb fraudulent financial reporting, and is now focusing on internal control. The Committee of Sponsoring Organizations (COSO) consists of representatives from the AICPA, the Financial Executives Institute, the American Accounting Association, the Institute of Management Accountants (formerly the National Association of Accountants) and the Institute of Internal Auditors.

In March, COSO released an exposure draft titled, *Internal Control—Integrated Framework*, to help management evaluate and improve their companies' internal controls, and to provide guidance to companies that choose to report to external parties on their internal control systems. A

press briefing on the topic drew attention to the need for a common definition of internal control and the role it plays in minimizing incidents of fraudulent financial reporting.

A Gateway to Tax Reform

Tax reform—a priority of our members and of the public at large—remains a primary concern of the Institute. Taking the lead in areas as diverse as tax simplification and workload imbalance, the Tax Division has aggressively pursued changes in critical tax legislation and has defended the rights of tax practitioners and taxpayers alike.

Pushing for Tax Simplification

Spearheading efforts to simplify tax law, the AICPA declared April 16, 1991, as "Tax Simplification Day," to be held annually until the time simplification is achieved. Activities on that day included a press conference to promote awareness of the need to reduce tax-law complexity. Over the next year, the AICPA will further develop and promote legislative and regulatory simplification with continued support from the Internal Revenue Service (IRS) and the Treasury Department.

Aiding S Corporations

The AICPA actively pursued the revision of proposed regulations that would severely hamper the operations of S corporations. Our efforts contributed to the IRS's announcement that the rules will be prospective only, not retroactive to 1983 as originally proposed.

Publishing Tax Practice Review Guidelines

To assist members in the quality control and administration of their tax practices, the Institute has published voluntary review guidelines. A second set of review guidelines, concentrating on the technical aspects of tax practice, has also been published.

Addressing Workload Imbalance

The workload imbalance created by the 1986 Tax Reform Act requirement for calendar year-ends continues to be a problem for CPAs.

The AICPA has conducted surveys, met with members of Congress and the Treasury Department, and interacted with state societies to solve the workload problem. Based on these efforts, the AICPA will develop and seek introduction of legislation in the current Congress.

Serving Members' Interests

Through our various membership divisions and committees, the Institute ensures that all members have easy access to the specialized services and programs that they need to succeed in their day-to-day work.

Strengthening the Division for CPA Firms

Acknowledging the accomplishments and leadership of both the Private Companies Practice Section (PCPS) and the SEC Practice Section (SECPS), the AICPA's Governing Council expanded the roles of the sections' executive committees. In particular, Council approved measures to:

- Designate the SECPS Executive Committee a senior technical committee with the authority to make public statements about its positions and make the SEC Regulations Committee a component of the SECPS.
- Expand the role and membership of the PCPS Executive Committee to represent, act as an advocate for, and provide service to all medium- and small-sized firms. Recognizing this new role, the PCPS Executive Committee was renamed the Private Companies Practice Executive Committee and granted responsibility to provide practice management services through the Management of an Accounting Practice (MAP) Committee.

Among the PCP Executive Committee's future plans is the continued development of networking forums and other programs for firms of similar size, especially for smaller firms and sole practitioners. It has also agreed to sponsor and fund out of PCPS member dues the publication of the *Practicing CPA*.

Focusing on Management Issues

The Management of an Accounting Practice (MAP) Committee stepped up its efforts to help firms prosper in a challenging economy. The committee provided up-to-date advice on how firms can deal with these challenges at the annual National Practice Management, Small Firm and National Marketing Conferences. The conferences combine a "nuts and bolts" approach to firm management with sessions on management concepts and techniques.

In addition to the conference, the MAP Committee undertook several new initiatives this year, including publication of a series of pamphlets for clients of CPA firms on aspects of business operations ranging from marketing to management of working capital. Also developed were books on malpractice prevention and defense, launching a CPA firm, firm organizational structure, and practice continuation agreements. Other initiatives include a series of executive training programs and MAP programs for sole practitioners.

In conjunction with the Auditing Standards Board, the MAP Committee conducted a survey on the use of paraprofessionals in the auditing function. Additionally, the committee established a survey system to identify current management issues facing firms,

SOURCES AND OCCUPATIONS OF AICPA MEMBERSHIP							
	1979	1981	1983	1985	1987	1989	1991
Total AICPA Membership	149,314	173,900	201,764	231,333	254,910	286,358	301,410
Public Accounting	55.0%	53.5%	53.0%	51.0%	47.6%	45.8%	43.2%
Business & Industry	34.2	36.1	36.9	38.8	39.5	39.9	40.7
Education	3.0	2.8	2.7	2.7	2.8	2.7	2.8
Government	3.4	3.3	3.3	3.3	3.4	3.7	3.9
Retired & Miscellaneous	4.4	4.3	4.1	4.2	6.7	7.9	9.4
Membership in Public Practice	82,141	93,082	106,870	117,850	121,349	131,014	130,078
Firms with one member	23.5%	21.8%	22.6%	23.9%	25.6%	23.8%	24.1%
Firms with 2 to 9 members	32.3	34.5	34.0	33.7	34.0	33.8	35.2
Firms with 10 or more members, except the	12.6	14.2	15.0	15.1	15.5	17.3	18.8
25 largest firms	31.6	29.5	28.4	27.3	24.9	25.1	21.9

the results of which are being used to design MAP programs for firms of various sizes. With the support of the PCP Executive Committee, the MAP Committee will use the responses to plan and carry out future programs.

Improving PFP Services

The Personal Financial Planning (PFP) Division improved the services available to its more than 7,000 members. Among the more notable advances was the formation of the Statement on Responsibilities in PFP Practice Subcommittee, which will develop guidance for members and provide advisory opinions on the CPA's responsibilities to the client, the public and the profession. Additionally, the Division worked to:

- Expand and update the *Personal Financial Planning Manual*.
- Develop new brochures and a more aggressive media campaign to promote CPA financial planners and the Accredited Personal Financial Specialist (APFS) designation.
- Express the profession's concerns with personal financial planning legislation.
- Establish the *PFP Library Series*, with guides on the personal financial planning process and investment planning.

Strengthening MAS Support

The Management Advisory Services (MAS) Division's major effort in the past year was the development and exposure of a *Statement on Standards for Consulting Services*. The statement is important to all members in public practice who are likely to perform consulting services, including providing informal advice on business and management. A final statement will be issued in early fall.

To help members maintain high efficiency in their engagements, the division issued practice aids on such subjects as microcomputer security, employee manual development, management incentive programs, and organizational structure. A special

report on using graphics in MAS presentations was also published.

To better tailor its future products and services, the division conducted a survey of its 5,000-plus members. This research will help ensure that the division continues meeting its members' needs.

Serving Industry Members

The number of AICPA members in industry continues to grow. A testament to this growth is the record attendance at this year's National Industry Conference.

New programs for industry members included an expansion of appropriate CPE courses. In addition, members will now receive CPE credit for completing an examination on articles published in *Selected Readings for Industry Members*—a publication of the Industry Committee that consists of reprints from periodicals on management and controllership.

The Institute also stepped up communications to industry members by publishing four special inserts in *The CPA Letter*. At the same time, we worked to increase the number of industry members represented on committees, as well as to represent their interests on such issues as the Uniform Accountancy Act and internal controls.

To ensure that members' needs are met at the state level, the Industry Committee continued its annual conference for State Society Industry Committee Chairpeople. This forum provided an excellent opportunity for states to exchange information on what they are doing to serve industry members.

Finally, the Industry Committee was given Executive Committee status to better meet the needs of industry members and to represent their views in future activities and initiatives.

Connecting with Information Technology

Recognizing the rapid expansion of our members' technological requirements, the

Institute created an Information Technology Membership Division as of August 1, 1991. The new division will:

- Help CPAs in public practice, industry, education, and government apply new technologies to their work and keep pace with future technological trends.
- Provide a forum for the interchange of ideas and techniques.
- Conduct a public awareness program to enhance the image of the CPA as an expert in information technology.

The division will also help increase accountants' competency levels in information technology by providing them with technical information. Division members will receive a quarterly newsletter, technology planning guides and practice aids, and discounts on selected hardware and software.

The Value of Membership

The Institute's number-one priority is supporting all members—regardless of their areas of expertise—with services that help them protect their livelihoods, improve their efficiency, and market their services. From insurance programs to publications, our focus is providing the right resources.

Improving Insurance Programs

The AICPA Insurance Trust saw its life insurance in force exceed \$60 billion, a 13-percent increase for the year. The plan, which insures over 400,000 participants, issued refunds in 1991 of over \$50 million, the largest aggregate distribution in the Trust's history.

The Trust continues to earn its success. This year, it increased the maximum level of coverage offered under the Group Insurance Plan to \$300,000 from \$200,000; introduced additional coverage for dependent children under the CPA Plan; and expanded the scope of the Long-Term Disability Plan, offering an optional 13-week waiting period.

Premium rates in the AICPA Professional Liability Insurance Plan were reduced

for the second consecutive year. Many plan participants were able to realize premium savings of up to 20 percent, subject to the circumstances of their practices.

In addition, a new liability insurance policy was introduced for firms with one to five employees and annual billings of less than \$250,000. The Basic Accountants' Professional Liability Policy has a \$100,000 limit and is designed for practitioners who provide tax, write-up, bookkeeping, compilation, and management consulting services.

Opening the Door to Research

Members of the Institute also gain access to the most comprehensive accounting library in the United States. This year, the AICPA library assisted 12,000 visitors and answered more than 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, including its own collection, the library stands ready to serve members in industry, public practice, government, and education.

Increasing Professional Support

Providing timely, practical tools to our members is a commitment of which the Institute stands proud. This year, we focused on developing and modifying resources that can improve members' day-to-day efficiency.

To assist members in expanding the use of technology in their organizations' activities, the Institute offered:

- New software programs, such as *Accountants Trial Balance Conversion*, *IDEA 4.0*, and electronic research versions of the *Audit and Accounting Guides* and *Accounting Trends and Techniques*.
- Additional software support staff and telephone lines, plus an incoming Express-FAX service.
- "QuikHelp" fax bulletins for frequently asked support questions.

In addition, the Technical Information Division responded to more than 60,000 inquiries on how to apply accounting and auditing pronouncements.

To help small- and medium-sized firms improve their audit efficiency and quality control, we launched the *Small Firm Library Series* manuals. These manuals offer a step-by-step approach and include all necessary forms, checklists, sample workpapers, and model letters. Four titles were released this year, and several new titles are in process. The contents of the manuals are monitored by the newly established PCPS Audit Manual Advisory Task Force. We also offered an *Audit and Accounting Guides* looseleaf service.

Through readership surveys and regularly scheduled member roundtables, the *Journal of Accountancy* expanded its knowledge of constituent needs and broadened the scope of its content accordingly. In responding to members' needs and suggestions, the *Journal* streamlined the table of contents and introduced several new monthly sections on such issues as benefits, marketing, member services, and new products. For easy identification in the "Coming Events" listings, the *Journal* now highlights Institute conferences and their CPE credits.

Access to AICPA Leadership

With the state CPA societies' support, the AICPA continued its successful member outreach programs. Last year, the Institute conducted three president's member forums and 16 member roundtables. These programs provided members the opportunity to discuss issues of importance to the profession with AICPA President Philip B. Chenok and the AICPA executive staff.

Promoting the Profession

Reinforcing the accounting profession's reputation for integrity and reliability is just one of the goals of the Institute's Communications Division. Through publications and media campaigns, the division publicized CPAs' capabilities, addressed the needs of different

Institute membership divisions, and supported key legislative and regulatory initiatives.

A host of new publications, speeches, video and slide presentations were released to help members market their services to current and potential clients. Among this year's new products are brochures for consumers on managing credit, understanding the new tax laws, and using CPAs as personal financial planners. We also added new brochures on budgeting and improving business performance in the *Business Advice from CPAs* series.

Helping consumers cope with the challenges of a recessionary economy was the focus of another public relations campaign. The campaign included a brochure, speech, radio public service announcements, and an interview-preparation guide for members that resulted in coverage on CNN and on local networks, as well as in print media.

During the Persian Gulf war, we supported the families of hostages held in Iraq by coordinating state society participation in *USA GIVE*, a special group that worked with the State Department's Kuwait Task Force to offer legal, psychological, and financial advice to these families.

Underscoring the profession's commitment to serving the public good, we sponsored a series of events in conjunction with National Volunteer Week, including a financial management seminar for not-for-profit organizations held in Washington, D.C. In addition, more than 96 million people saw a public service announcement on charitable deductions produced by the AICPA and distributed to 200 television stations around the country. We also released a brochure on tax deductions for those who contribute time, property or cash to charitable organizations.

On the legislative front, we supported a number of the Institute's programs, including the designation of April 16 as Tax Simplification Day. A press briefing held in Washington, D.C. drew nationwide media coverage and legislators' attention to the need for reducing the tax code's complexity.

Progress

**Advancing toward a goal or objective.
The process of improving. Moving forward.**

In the past few years, we have witnessed dramatic shifts in the economic, regulatory, and technical arenas. With increased economic globalization and shifting demographics in our own country, we have one imperative—to meet the challenge of progress. The Institute is rising to that challenge with a new international awareness and a carefully conceived agenda for the future.

International Relations

Through its support of the International Federation of Accountants (IFAC) and the International Accounting Standards Committee (IASC), the AICPA has made a significant contribution toward achieving international harmonization of accounting, auditing and ethical guidelines. With the globalization of trade and services, more and more organizations are becoming international in scope. In recognition of these factors, the AICPA will co-host the 14th World Congress of Accountants to be held in Washington, D.C. on October 11–14, 1992. The Congress' theme, "The Accountant's Role in a Global Economy," has never been more timely.



Updating the CPA Examination

The AICPA Board of Examiners has made significant progress toward implementing changes in the Uniform CPA Examination. Reflecting new educational and professional developments, as of May 1994 the examination will be shortened from two-and-a-half days to two days and will be restructured into four new sections. The new examination will also have a greater number of objective ques-

tions, permit the use of hand-held calculators, and assess writing skills.

Additionally, the Institute issued *The 1991 Report—Practice Analysis of Certified Public Accountants in Public Practice* based on a survey of the professional activities of more than 1,800 certified public accountants. The Report will provide a basis to ensure that the Uniform CPA Examination tests the knowledge and skills that are relevant to the practice of CPAs in today's business, government, and financial environments.

Finally, the Board of Examiners has decided to issue a position paper that calls for the Uniform CPA Examination to become a nondisclosed examination, effective May 1996. In a nondisclosed examination, the questions and answers are not released to candidates, the profession, or the public after the examination has been administered. In the coming year, the Board of Examiners will be holding a series of open meetings to discuss its position.

Upward Mobility of Women and Minorities

Working with other organizations, the AICPA remains dedicated to enhancing the upward mobility of women and minorities in the profession. We are also seeking ways to increase the number of qualified female CPAs represented on AICPA committees, boards, and Council.

Fostering the integration of the profession is another one of the Institute's most significant goals. Over the past year, we encouraged young men and women from minority groups to prepare themselves for professional careers in accounting. At the same time, we urged public accounting firms and other business organizations to recruit and promote qualified members of minority groups.

The 21st Annual Faculty Summer Seminar for accounting faculty at the historically black and minority colleges and universities also played a part in providing quality education for minority accounting students. Minority faculty members from these schools are eligible to receive doctoral fellowships in accounting from the AICPA.

Since 1975, 31 doctoral students have received 79 annual fellowships. Seventeen of these individuals have received doctorates in accounting.

During the 1990–91 academic year, scholarships totaling \$454,125 were awarded to 626 minority accounting majors at more than 200 colleges and universities.

Progress in Governance and Structure

Success in the future will require our profession to make some fundamental changes in both the way it is structured and the way it operates. Ensuring that these changes serve our members' interests is just one of the missions of a special Board committee assigned to review the recommendations of the Special Committee on Governance and Structure. The recommendations were evaluated in light of their immediate or long-term need, likelihood of acceptance by those involved, the proposal's cost-benefit, and probability of authorization under the bylaws.

Among the significant recommendations authorized by the Board of Directors and Council were the establishment of a Management Accounting Division, creation of a Members in Industry Executive Committee, designation of the SEC Practice Section (SECPS) Executive Committee as a senior technical committee, and expansion of the Private Companies Practice Section Executive Committee.

In other actions regarding the governance and structure of the AICPA, the Council:

- Decided that the members of the SECPS and the Quality Review Executive Committees will be appointed by the Chairman of the Board, subject to approval by the Board and the existing committees' members.
- Approved a recommendation that Council elect an 11-member Nominations Committee that would include no more than seven members of the Council, one of whom will be the immediate past chairman of the Board of Directors and that members could serve for two-year periods.

- Renamed the Federal Taxation Division the "Tax Division."

The Council also authorized a member ballot to eliminate the elected position of treasurer and to give that responsibility to the chairman of the Finance Committee of the Board of Directors. Included in that same ballot will be a proposal to eliminate the office of elected vice presidents with one-year terms and to expand the Board of Directors from 21 to 23 members so that elected Board members serve staggered three-year terms. These recommendations will be voted on by the membership in November.

Road Map to the Future

The shortest path to any destination is a straight line. We have drawn that line with *Strategic Thrusts for the Future* (second edition). A road map to the profession's future, the plan contains 20 strategic thrusts, as well as specific action plans for the Institute to pursue over the next five years to achieve its objectives and overall mission. A living document, the plan will be utilized in developing new Institute activities and in establishing budget priorities for 1992 and beyond. We will focus on implementing the plan's recommendations over the next few years and will periodically present updates on our progress.

Relocating AICPA Offices

Faced with a substantial increase in occupancy costs when our present New York City lease expires in 1994, the AICPA signed a 20-year lease with the Harborside Financial Center in Jersey City, New Jersey. Approximately 600 AICPA employees will move to the new facility beginning July, 1992. The selection of Harborside was based on economics and on such factors as accessibility to our employees and the work environment.

We will still retain midtown Manhattan facilities and staff support for those activities involving frequent face-to-face member contact. The Institute will also continue to maintain its office in Washington, D.C.



Harborside Financial Center, future site of AICPA offices

Building Up the AICPA's Leadership

Strengthening the Institute's executive staff, six new vice presidents were appointed in 1991. They are:

- **John E. Hudson, promoted to vice president—technical standards and services.**

In this newly created position, Mr. Hudson continues to hold responsibility for Accounting Standards, Personal Financial Planning, and Management Advisory Services. In addition, he is now responsible for Information Technology, Technical Information, and International Practice.

- **John E. Hunnicutt, appointed vice president—federal affairs.**

Mr. Hunnicutt will be the senior officer in the Institute's Washington office when B.Z. Lee, deputy chairman for federal affairs, retires next year.

- **Geoffrey L. Pickard, appointed vice president—communications.**

Mr. Pickard is responsible for the Institute's public and media relations activities, communications programs for members and state CPA societies, and publication of *The CPA Letter*.

- **Arthur Renner, promoted to vice president—Division for CPA Firms.**

In this newly created position, Mr. Renner continues to oversee the activities of the SECPS and its Quality Control Inquiry Committee. In addition, he is now responsible for the Private Companies Practice Section and its Technical Issues Committee, as well as the Management of an Accounting Practice Committee.

- **Jay Rothberg, promoted to vice president—state society relations.**

Promoted from the position of executive assistant to the president, Mr. Rothberg directs all aspects of the AICPA's relations with state CPA societies, as well as the activities of the Members in Industry Executive Committee and select member programs.

- **John Sharbaugh, promoted to vice president—state legislation and legislative relations.**

Mr. Sharbaugh handles state legislation, the Key Person Program, and Washington publications and media relations. Prior to his promotion, he was director of communications and state society relations.

Institute Operations

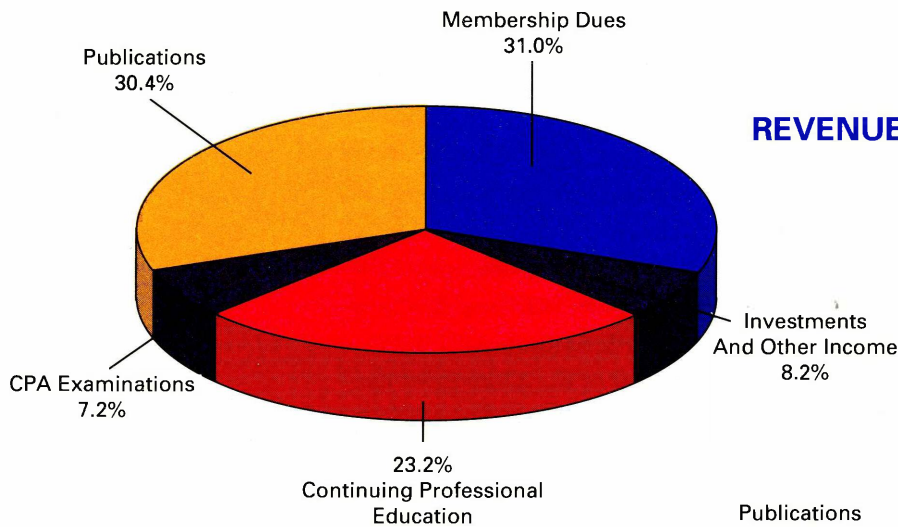
The impact of the recession adversely affected operations during the year. Although revenue increased to \$107.5 million or about \$6 million over the prior year, the increase wasn't enough to offset expenses of \$110.4 million, resulting in an excess of expenses over revenue of \$2.9 million.

Revenue had been expected to increase by about \$14.4 million. Sales of publications and subscriptions were below expectation by about \$4 million, partially as a result of cancellations and delays in the release of new AICPA products. Dues were less than budget by \$1.5 million and conference revenue was below budget by \$1.3 million. Investment and sundry income also was \$1.2 million below budget.

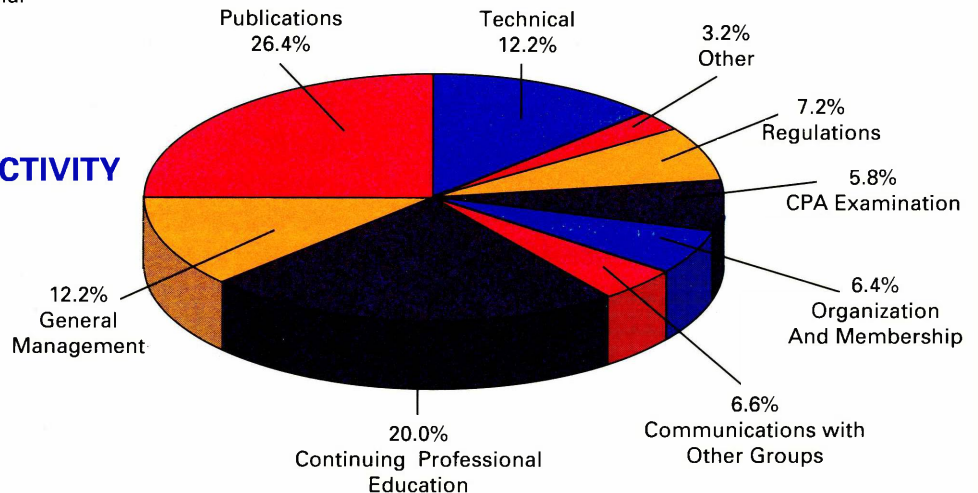
An aggressive cost-containment effort, undertaken early in the year in anticipation of the revenue shortfall, helped reduce expenses by \$4.9 million below budgeted amounts of \$115.4 million. Costs associated with the quality review

program were about \$1.8 million more than the prior year and legal fees were \$830,000 greater than budget. The remaining increases over the prior year stem from generally higher costs coupled with the expansion of activities.

The budget for 1991-92 provides for revenue of \$117.5 million. Expenses are budgeted to exceed revenues by about \$500,000. While a dues increase was considered, management and the Board of Directors concluded that the economy had not yet become robust enough to ask members for additional dues in 1991-92. It is clear, however, that a significant dues increase will be required in 1992-93 for: (1) the relocation of the Institute's operations group to New Jersey, (2) development of the quality review program, (3) a new CPA exam grading system, and (4) programs and activities recommended through the strategic planning process.



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

Independent public accountants are engaged to audit the financial statements of the above entities and issue a report thereon. They have informed management the audits were conducted in accordance with generally accepted auditing standards which require a review of and evaluation of internal accounting control 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 (comprised of 5 non-management directors), is responsible for providing reasonable assurance that management fulfills its responsibilities in the preparation of the financial statements and in the maintenance of the system of internal accounting control. The Audit Committee annually selects the independent public accountants and submits its selection to the Board of Directors, and then to the Council, for approval. The Audit Committee meets with the management, the independent public accountants, and the internal auditor; approves the overall scope of audit work and related fee arrangements, and reviews audit reports and findings. In addition, the independent public accountants and the internal auditor meet with the Audit Committee without management representatives present, to discuss the results of their audits, the adequacy of internal accounting control, and the quality of financial reporting. These meetings are designed to facilitate private communication between the Audit Committee and both the internal auditor and the independent public accountants.



Philip B. Chenok
President



Donald L. Adams
Vice President, Finance & Administration

J. H. COHN & COMPANY

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(212) 759-4620

LAWRENCEVILLE, NJ
NEW YORK, NY
ROSELAND, NJ
SAN DIEGO, CA

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, 1991 and 1990, 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, 1991 and 1990, 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, 1991 and 1990, and their results of operations and changes in 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 29, 1991

	<u>1991</u>	<u>1990</u>
	(\$000)	
Assets:		
Cash	\$ 197	\$ 207
Marketable securities, at lower of cost or market	17,257	21,540
Accounts receivable (less an allowance for doubtful accounts: 1991, \$465,000; 1990, \$382,000)	10,517	9,638
Inventories	4,110	3,559
Deferred costs and prepaid expenses	7,400	6,820
Furniture, equipment, and leasehold improvements, net	9,326	9,090
	<u>48,807</u>	<u>50,854</u>
Funds held for Division for CPA Firms	3,463	3,506
	<u>\$52,270</u>	<u>\$54,360</u>
 Liabilities and Fund Balances:		
Liabilities and deferred revenue:		
Accounts payable and other liabilities	\$10,851	\$ 9,719
Advance dues	14,291	14,594
Unearned revenue from subscriptions and other sources	7,594	7,537
	<u>32,736</u>	<u>31,850</u>
Funds held for Division for CPA Firms	3,463	3,506
General fund balances	<u>16,071</u>	<u>19,004</u>
	<u>\$52,270</u>	<u>\$54,360</u>

**Statement of Changes in Fund Balances
Year Ended July 31**

	<u>1991</u>	<u>1990</u>
	(\$000)	
General Fund:		
Fund balances, beginning of year	\$19,004	\$18,114
Excess (deficiency) of revenue over expenses	(2,933)	890
Fund balances, end of year	<u>\$16,071</u>	<u>\$19,004</u>

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

	<u>1991</u>	<u>1990</u>
	(\$000)	
Revenue:		
Dues	\$ 33,370	\$ 32,428
Publications	32,672	29,669
Continuing professional education	24,896	23,122
Examinations	7,719	7,808
Investment and sundry income	5,472	4,894
Conferences	<u>3,401</u>	<u>3,543</u>
	<u>107,530</u>	<u>101,464</u>
Expenses (see also Summary of Expenses by Activity):		
Salaries	32,825	29,285
Cost of sales	22,706	21,106
Occupancy	10,201	8,578
Meetings and travel	6,245	6,420
Postage and shipping	6,582	6,030
Professional services	4,489	3,816
Printing and paper	4,953	5,166
Personnel costs	6,754	5,622
Promotions and advertising	3,576	3,678
Commercial services	1,714	1,784
Support for professional organizations	1,429	1,375
Equipment rental and maintenance	1,416	1,120
Telephone	1,752	1,244
Office and computer supplies	1,356	1,248
Mailing services	732	734
Fees	673	653
Software development	953	566
Income taxes	354	393
Other	<u>1,753</u>	<u>1,756</u>
	<u>110,463</u>	<u>100,574</u>
Excess (deficiency) of revenue over expenses	<u>\$ (2,933)</u>	<u>\$ 890</u>

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

	<u>1991</u>	<u>1990</u>
	(\$000)	
Examinations	\$ 6,428	\$ 6,216
Publications:		
Produced for sale	24,219	20,993
Distributed to members and others	4,906	4,884
Continuing professional education	22,112	20,164
Conferences	2,708	2,720
Technical:		
Accounting and review services	65	101
Accounting standards	1,413	1,248
Auditing standards	1,953	1,860
Federal taxation	3,232	2,691
Management advisory services	849	780
International practice	626	736
Technical assistance to members	2,549	2,226
Library	1,447	1,458
NAARS program	424	704
Financial Accounting Foundation support	591	573
Accountants' legal liability	302	256
Regulation:		
Ethics and trial board	1,772	1,656
State legislation	382	528
Division for CPA Firms	1,000	882
Quality review programs	4,830	3,063
Organization and membership:		
Board, council and annual meetings	2,055	1,944
Nominations and committee appointments	226	160
Communications with members	433	351
Membership services	3,680	3,252
Special organizational studies	720	945
Communications with other groups:		
Public relations	1,242	1,747
State societies	251	247
Universities	1,265	1,352
Federal government	4,507	4,421
Assistance programs for minority students	777	753
General management	13,499	11,663
	<u>\$110,463</u>	<u>\$100,574</u>

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

	<u>1991</u>	<u>1990</u>
	(\$000)	
Decrease in Cash:		
Cash Flows from Operating Activities:		
Cash received from members and customers	\$104,161	\$102,974
Interest and dividends received	1,483	1,809
Cash paid to suppliers and employees	(107,339)	(100,551)
Income taxes paid	(479)	(470)
Income taxes refunded	100	400
Net cash provided by (used in) operating activities	<u>(2,074)</u>	<u>4,162</u>
Cash Flows from Investing Activities:		
Payments for purchase of equipment	(2,736)	(4,141)
Payments for purchase of marketable securities	(14,386)	(13,475)
Proceeds from sale of marketable securities	19,186	13,385
Net cash provided by (used in) investing activities	<u>2,064</u>	<u>(4,231)</u>
Net decrease in cash	(10)	(69)
Cash, beginning of year	207	276
Cash, end of year	<u>\$ 197</u>	<u>\$ 207</u>

**Reconciliation of excess (deficiency) of
revenue over expenses to net cash provided
by (used in) operating activities:**

Excess (deficiency) of revenue over expenses	\$ (2,933)	\$ 890
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,461	4,124
Gain on sale of marketable securities	(517)	(596)
Amortization of subscription revenue	(251)	(2,976)
Provision for losses on accounts receivable	244	108
Provision for obsolete inventories	450	320
(Increase) in:		
Accounts receivable	(1,123)	(58)
Inventories	(1,001)	(648)
Deferred costs and prepaid expenses	(1,541)	(3,786)
Increase (decrease) in:		
Accounts payable and other liabilities	1,132	(165)
Advance dues	(303)	3,465
Unearned revenue from subscriptions and other sources	308	3,484
Total adjustments	<u>859</u>	<u>3,272</u>
Net cash provided by (used in) operating activities	<u>\$ (2,074)</u>	<u>\$ 4,162</u>

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

Related Organizations

Balance Sheet
July 31

	American Institute of Certified Public Accountants Foundation		AICPA Benevolent Fund, Inc.		Accounting Research Association, Inc.	
	1991	1990	1991	1990	1991	1990
	(\$000)		(\$000)		(\$000)	
Assets:						
Cash	\$ 8	\$ 4	\$ 5	\$ 6	\$ 2	\$ 2
Marketable securities, at lower of cost or market*	2,479	2,533	1,012	1,230	921	1,008
Notes and mortgages receivable (net of allowance for doubtful collections: 1991, \$51,000; 1990, \$47,000)	—	—	462	376	—	—
Dues receivable	—	—	—	—	995	1,221
Other receivables	30	37	18	24	20	16
	<u>\$2,517</u>	<u>\$2,574</u>	<u>\$1,497</u>	<u>\$1,636</u>	<u>\$1,938</u>	<u>\$2,247</u>
Liabilities and Fund Balances:						
Liabilities and deferred revenue:						
Accounts payable	\$ 6	\$ 33	\$ 2	\$ 6	\$ 271	\$ 233
Advance dues	—	—	—	—	1,163	1,310
Scholarships payable	457	408	—	—	—	—
	<u>463</u>	<u>441</u>	<u>2</u>	<u>6</u>	<u>1,434</u>	<u>1,543</u>
Fund balances:						
General	38	36	1,495	1,630	504	704
Library	917	914	—	—	—	—
John L. Carey Scholarship Fund	453	443	—	—	—	—
Accounting Education Fund for Disadvantaged Students	624	720	—	—	—	—
E.W. Sells Award Fund	21	19	—	—	—	—
Sydney Orbach Fund	1	1	—	—	—	—
	<u>2,054</u>	<u>2,133</u>	<u>1,495</u>	<u>1,630</u>	<u>504</u>	<u>704</u>
	<u>\$2,517</u>	<u>\$2,574</u>	<u>\$1,497</u>	<u>\$1,636</u>	<u>\$1,938</u>	<u>\$2,247</u>
*NOTE:						
Marketable securities at market	<u>\$2,568</u>	<u>\$2,602</u>	<u>\$1,114</u>	<u>\$1,320</u>	<u>\$1,005</u>	<u>\$1,061</u>

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.	
	1991	1990	1991	1990	1991	1990
	(\$000)		(\$000)		(\$000)	
Additions:						
Investment and sundry income	\$ 154	\$ 176	\$ 71	\$ 87	\$ 102	\$ 92
Gain on sale of securities	33	46	42	61	31	33
Contributions/dues	472	477	166	171	3,059	3,065
	<u>659</u>	<u>699</u>	<u>279</u>	<u>319</u>	<u>3,192</u>	<u>3,190</u>
Deductions:						
Support/scholarships	729	682	—	—	3,011	2,628
Assistance to members and families	—	—	374	397	—	—
FASB subscription service	—	—	—	—	200	200
Other	9	11	40	34	181	180
	<u>738</u>	<u>693</u>	<u>414</u>	<u>431</u>	<u>3,392</u>	<u>3,008</u>
Increase (decrease) in fund balances	(79)	6	(135)	(112)	(200)	182
Fund balances, beginning of year	2,133	2,127	1,630	1,742	704	522
Fund balances, end of year	<u>\$2,054</u>	<u>\$2,133</u>	<u>\$1,495</u>	<u>\$1,630</u>	<u>\$ 504</u>	<u>\$ 704</u>

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

Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles in the United States. The accounting principles used also conform, in all material respects, with the International Accounting Standards adopted by the International Accounting Standards Committee (IASC).

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

- Assets, liabilities, revenue and expenses are recognized on the accrual basis.
- 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 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 subscriptions, which are primarily for one year. Costs involved in fulfilling subscriptions are recognized over the term of the subscriptions 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.
- 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.

Notes to Financial Statements July 31, 1991 and 1990

1. Marketable Securities

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

	1991	1990
	(\$000)	
U.S. Treasury bonds and notes	\$ 3,132	\$ 5,561
Bonds, notes, and money market funds	9,516	10,070
Equities	4,609	5,909
	<u>\$17,257</u>	<u>\$21,540</u>
Market value	<u>\$18,296</u>	<u>\$22,534</u>

2. Inventories

Inventories at July 31 consist of:

	1991	1990
	(\$000)	
Paper and material stock	\$ 833	\$ 713
Publications in process	732	700
Printed publications and course material	2,545	2,146
	<u>\$ 4,110</u>	<u>\$ 3,559</u>

3. Furniture, Equipment, and Leasehold Improvements

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

	1991	1990
	(\$000)	
Furniture and equipment	\$11,946	\$ 9,665
Leasehold improvements	7,056	6,601
	19,002	16,266
Less accumulated depreciation and amortization	9,676	7,176
	<u>\$ 9,326</u>	<u>\$ 9,090</u>

Depreciation of furniture and equipment and amortization of leasehold improvements for the years ended July 31, 1991 and 1990 were \$2,500,000 and \$1,978,000.

4. Income 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, 1991 were \$97,893,000. 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

1992	\$ 5,510
1993	5,265
1994	4,077
1995	4,328
1996	4,526
Years subsequent to 1996	74,187
	<u>\$97,893</u>

The above amounts include \$74,986,000 (net of rent concessions of \$7,488,000) for a twenty-year lease for office space in Jersey City, New Jersey entered into in connection with plans to relocate a substantial portion of the Institute's operations from New York City. The rent concession represents a total abatement of rent payments for the first 29 months of the lease. It is anticipated that the period of the abatement will be from July 1992 through November 1994. The relocation is anticipated to take place in the summer of 1992. The undetermined remaining costs related to the preexisting New York City lease, including rental payments net of probable sublease income and capitalized leasehold improvements, will be charged to expense in either 1992 or 1993 when the leased property or improvements have no substantive future use or benefit to the Institute.

Rental expense for the years ended July 31, 1991 and 1990 was \$8,115,000 and \$6,871,000.

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:

	1991	1990
	(\$000)	
Service cost—benefits earned during the year	\$ 1,083	\$ 937
Interest cost on projected benefit obligation	1,406	1,221
Return on plan assets:		
Actual	(3,950)	(2,276)
Deferred	1,814	354
Net amortization of unrecognized net asset	(274)	(274)
Net amortization of unrecognized prior service cost and net loss	1	9
	<u>\$ 80</u>	<u>\$ (29)</u>

Funded status of the plan:

	<u>May 1</u>	
	<u>1991</u>	<u>1990</u>
	(\$000)	
Actuarial present value of projected benefit obligation, based on employment service to date and current salary levels:		
Vested benefits	\$14,305	\$12,431
Non-vested benefits	930	739
Additional amounts related to projected salary increases	<u>4,305</u>	<u>3,715</u>
Projected benefit obligation	<u>\$19,540</u>	<u>\$16,885</u>
Assets available for benefits:		
Plan assets at fair value	\$27,958	\$24,779
Accrued pension cost	<u>113</u>	<u>34</u>
	<u>\$28,071</u>	<u>\$24,813</u>
Assets in excess of projected benefit obligation:		
Unamortized portion of amount existing at date FAS No. 87 was adopted	\$ 3,433	\$ 3,707
Amount arising subsequent to adoption of FAS No. 87	6,807	6,101
Unrecognized prior service cost	<u>(1,709)</u>	<u>(1,880)</u>
	<u>\$ 8,531</u>	<u>\$ 7,928</u>

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 FASB Statement No. 87, "Employers' Accounting for Pensions," (FAS No. 87) was adopted, is being recognized in determining pension expense over 18.5 years. 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 8¼% as of May 1, 1991 and 8½% as of May 1, 1990. The expected long-term rate of return on plan assets used in determining net pension expense for the years ended July 31, 1991 and 1990 was 9½%. The assumed rate of increase in future compensation levels was 5½% for both 1991 and 1990.

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 \$311,000 and \$282,000 for the years ended July 31, 1991 and 1990.

7. Health Care and Life Insurance Plans

The Institute sponsors employee postretirement health care and life insurance plans and contributes toward the annual cost of retirees remaining in these plans. Expense for these plans, recognized on the cash basis, was \$188,000 and \$132,000 for the years ended July 31, 1991 and 1990.

In December 1990, the FASB issued Statement No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," (FAS No. 106). FAS No. 106 generally requires that, beginning no later than the fiscal year ending July 31, 1994, the cost of providing retiree health care and life insurance benefits is to be recognized during the years that service is rendered by employees expected to receive benefits under the plans. The Institute can elect to record the cumulative effect of the accounting change as a charge against income when FAS No. 106 is adopted or, alternatively, on a deferred basis as part of future annual benefit costs.

The Institute is currently evaluating various alternative arrangements available to it for providing these benefits. Based on the analyses to date, the Institute believes the adoption of FAS No. 106 could result in charges to expense of between 5 and 12 times current expense, assuming FAS No. 106 is adopted on a deferred basis.

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. 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 \$2,500,000 for the calendar year 1991.

The ARA also makes a best efforts commitment to raise funds for support of the Governmental Accounting Standards Board (GASB). The commitment is \$460,000 for the calendar year 1991. It is anticipated the ARA will continue to support the FASB and GASB.

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

Balance Sheet	July 31, 1991	
	Private Companies Practice Section	SEC Practice Section
	(\$000)	
Assets:		
Cash	\$ 6	\$ 7
Marketable securities at lower of cost or market*	<u>1,593</u>	<u>1,857</u>
	1,599	1,864
Dues and other receivables	<u>50</u>	<u>73</u>
	<u>\$1,649</u>	<u>\$1,937</u>
Liabilities and Fund Balances:		
Accounts payable	\$ 10	\$ 254
Advance dues	385	584
Fund balances	<u>1,254</u>	<u>1,099</u>
	<u>\$1,649</u>	<u>\$1,937</u>
*NOTE:		
Marketable securities at market	<u>\$1,618</u>	<u>\$1,922</u>

Statement of Changes in Fund Balances	Year Ended July 31, 1991	
	Private Companies Practice Section	SEC Practice Section
	(\$000)	
Additions:		
Dues	\$ 813	\$1,485
Gain on sale of securities	9	23
Investment and sundry income	<u>227</u>	<u>132</u>
	<u>1,049</u>	<u>1,640</u>
Deductions:		
Expenses of Public Oversight Board:		
Salaries and fees	—	864
Administrative expenses	<u>—</u>	<u>729</u>
	—	1,593
Peer review manuals	90	50
Printing	72	52
Membership directory	23	22
Administrative and other expenses	<u>660</u>	<u>281</u>
	<u>845</u>	<u>1,998</u>
Net increase (decrease) in funds	204	(358)
Fund balances, beginning of year	<u>1,050</u>	<u>1,457</u>
Fund balances, end of year	<u>\$1,254</u>	<u>\$1,099</u>

Included in administrative and other expenses for the year ended July 31, 1991 are reimbursements to the Institute in connection with quality review programs of \$150,000 from the Private Companies Practice Section and \$250,000 from the SEC Practice Section.

In addition to the expenses shown above, the Institute incurred expenses during the years ended July 31, 1991 and 1990 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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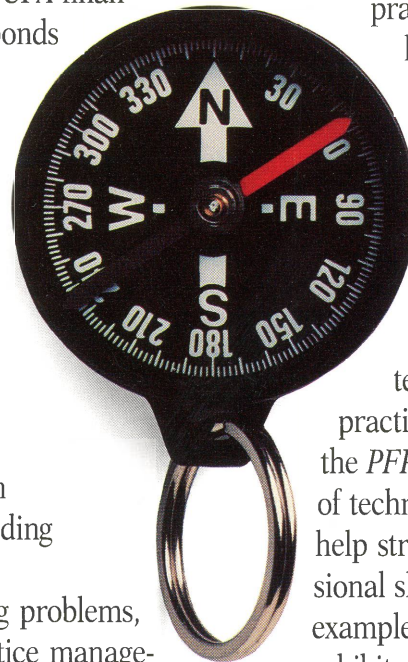


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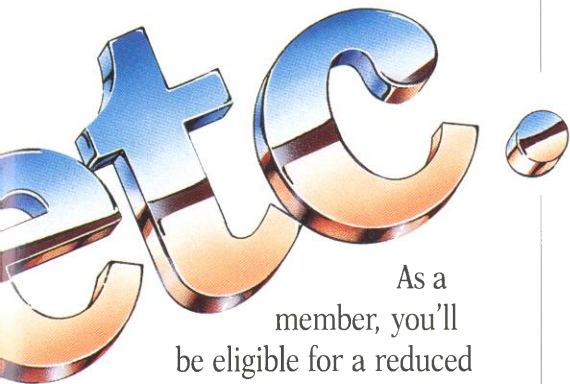
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- A special discount to the annual PFP Technical Conference, worth at least the cost of membership
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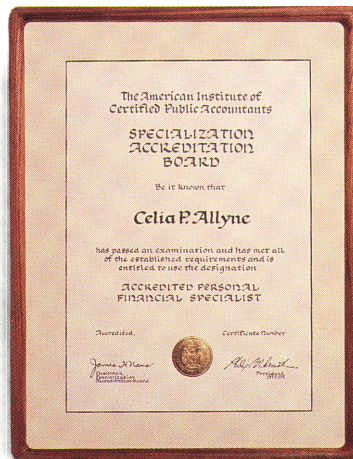
registration fee to the Division's annual PFP Technical Conference. Here you can network with professionals from every corner of the country and benefit from practical "how-to" sessions on such key subjects as effective investment planning... making life insurance products work... succession management solutions... coping with regulation, ethics issues, and other personal financial planning matters. The PFP Technical Conference offers continuing professional education credits as well.

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The Personal Financial Planning Division also administers the Accredited Personal Financial Specialist (APFS) designation. APFS designation proves — to both clients and colleagues — your expertise, skill and experience as a CPA financial planner. It's the only PFP specialist designation offered exclusively to CPAs, and the only PFP credential backed by the AICPA.

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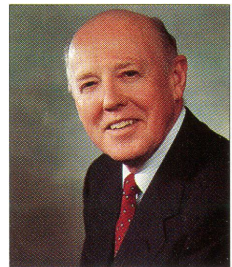
CPAs who have earned the APFS credential are also entitled to special networking opportunities at the Division's annual PFP Technical Conference.



The language of success.

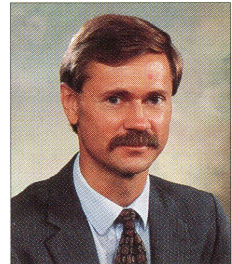
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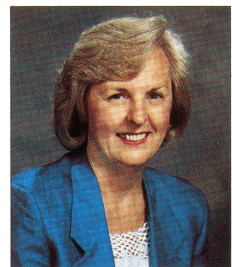
Jim Wilson
Knoxville, Tennessee

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Dirk Edwards
Portland, Oregon

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Isabelle Curtiss
Middlebury, Connecticut

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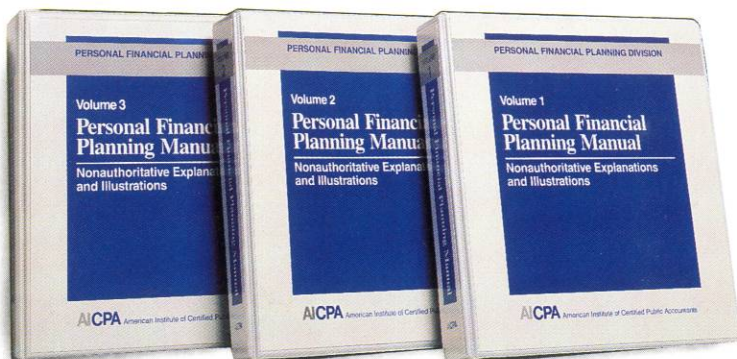
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