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AICPA annual report 1992; Accepting the leadership challenge

American Institute of Certified Public Accountants

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AICPA

ACCEPTING

THE

LEADERSHIP

CHALLENGE

1992 Annual Report

American Institute
of Certified
Public Accountants

The American Institute of Certified Public Accountants is the national professional organization for all certified public accountants. The mission of the AICPA is to act on behalf of its members and provide necessary support to assure that CPAs serve the public interest in performing 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.

Contents


Gerald A. Polansky, left, and Philip B. Chenok, right

The accounting profession today faces an array of challenges: increased competition, an uncertain economy, workload compression, and information overload—all combined with an explosive increase in litigation against accounting firms. These issues raise serious concerns for all of us.

In this worrisome climate, the American Institute of Certified Public Accountants has intensified its efforts to help members serve the public interest, while at the same time preserving the health of the profession. In accepting the leadership challenge of today, the clear imperative is ensuring that the Institute's work remains relevant and vital to all constituencies—the general public, the financial community, industry, government, and accounting professionals alike.

MANAGING TODAY'S CHALLENGES

To help members better cope with a weakened economy and an increasingly litigious practice environment, the Institute is pursuing several courses. In addition to issuing enhanced audit risk information, we are working with state societies, members, and firms to pursue litigation reform legislation. Among the alternatives are substituting proportionality for joint and several liability, limiting suits brought by third parties, and establishing a clear and convincing standard of proof for fraud allegation.

In addition, we were instrumental in establishing the Coalition to Eliminate Abusive Securities Suits (CEASS), a 300-plus member advocacy group of trade associations, businesses, and firms that is striving to convince Congress that comprehensive securities law reforms are needed to end abusive securities litigation.

The new Ethics Rule 505—approved by more than 92 percent of the voting membership—may also help CPAs to better manage the litigation crisis. Rule 505 now allows AICPA members to practice in any organizational form they choose, provided they comply with the laws in their local jurisdictions. Alternative forms of organization, such as limited liability companies, may offer CPAs benefits currently unavailable through forms traditionally used by accounting firms. Over the coming year, we will help state societies change state accountancy statutes and regulations to ensure that all practice units will eventually be able to practice in a variety of organizational forms.

While limiting unwarranted liability exposure is a chief concern of the Institute, other equally pressing challenges have demanded action as well. This year, for example, the profession's voice was clearly heard on such tax issues as workload compression, estimated taxes, and tax reform. On April 16—declared Tax Simplification Day by the Institute—we issued a comprehensive blueprint for simplification to help legislators identify feasible alternatives to tax complexity. The message was echoed by state societies across the country—winning widespread press coverage on an issue of concern to members and the public alike.

Bolstering the AICPA's wide-ranging legislative activities is the Key Person Program, which relies on the efforts of members across the country to bring professional concerns to the attention of legislators and state government officials.

With the essential backing of our members, the Institute remains the profession's voice in Washington, D.C., speaking loudly on any proposed legislation that would impact the CPA profession or diminish its long tradition of self-regulation.

ADDRESSING PROFESSIONAL ISSUES

In serving the public interest, the AICPA's Special Committee on Financial Reporting is working toward improving the relevancy of financial statements—including the possibility of providing more information on risks, uncertainties, and prospects. Complementing this effort is the Institute's work to improve internal control through its participation in the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. COSO's recently issued report provides the first integrated system of internal control for management.

The Institute continues to take an aggressive role in key financial reporting issues as they develop. Actively working with government supervisory agencies and insurance industry organizations, the Insurance Companies Committee is promoting the use of generally accepted accounting principles (GAAP) by revising two industry guides and by developing a proposed statement of position that would improve disclosures of risks and uncertainties in the financial statements of insurance entities.

To address the potential problems of underfunded pension plans, the Employee Benefit Plans Committee has created an ad hoc task force to consider how ERISA audits and disclosures to pension plan participants can be enhanced.

Another significant achievement of the past year was the release of a finalized Uniform Accountancy Act—an important first step on the road to breaking down professional barriers for CPAs practicing in different states. As approved by representatives of the AICPA, the CPA Societies Executive Association (CPA/SEA), and the National Association of State Boards of Accountancy (NASBA), the Act will include tort reform sections covering privity, proportionate liability, and a statute of limitations.

On the international front, the AICPA, NASBA, and the Canadian Institute of Chartered Accountants completed a position paper, "Principles for Reciprocity," that sets out a framework for reciprocity among the licensing bodies governing U.S. CPAs and Canadian Chartered Accountants. In addition, the Uniform Accountancy Act will include a foreign reciprocity provision.

Serving a Diverse Membership

Recognizing the often difficult economic realities members now face, we reexamined the cost of various member programs over the past year. In particular, we reduced the cost of quality review procedures by allowing sole practitioners with four or fewer professional staff members to have reviews conducted at the reviewers' offices or other agreed-upon locations. We also introduced publications and targeted CPE courses to help members cope more effectively with today's financial pressures.

Taking advantage of our group-buying power, we aggressively upgraded our member affinity programs. Supplementing the car rental program, we signed an agreement with Xerox Corporation that provides members with a 15- to 20-percent discount on the sale or lease price of all Xerox product lines. Additionally, the Information Technology Division launched a program that enables section members to obtain computer equipment at steep discounts. Proposals are being reviewed to provide members with other valuable products and services at discounted prices.

A number of changes launched in the past year respond to the growing competition for financial services and the diversity of our membership. For instance, since firms are expanding their scope of services and reaching out more often to other disciplines, the AICPA has begun to allow non-CPAs working in CPA firms to affiliate with technical sections. As a result, we will be better able to draw on the talents of diverse professionals—and help ensure that they are held to the exacting standards governing CPAs.

Industry members face a unique set of challenges, from global competition to managing costs in an environment increasingly operating under total quality management principles. Helping industry members work more efficiently is one of the primary missions of the new Management Accounting Executive Committee. In addition, several new programs are being launched by the Members in Industry Executive Committee. Among its plans is the creation of a Professional Issues Subcommittee that will represent industry members' views on accounting standards, legislation, and ethical considerations.

We have also provided another type of support that crosses membership segments: financial assistance in hard times. For many CPAs, economic survival has meant aid from the AICPA Benevolent Fund—established almost 60 years ago. Assistance takes many forms—including cash grants to help pay medical bills.

The AICPA Member Retirement Program, in operation over 30 years, allows members in public practice to plan for retirement. To better support members, we have engaged T. Rowe Price Associates, Inc. as the new service provider and have added new options to the program, including 401(k), money-purchase, profit-sharing, and SEP plans.

Looking to the future, the Institute is commencing a focused recruiting program based on the major shifts in demographics our country is experiencing: By the year 2000, a growing proportion of college students will be minorities and an estimated 56 percent will be women. The Institute is taking steps to improve communications with these vital constituencies, including the creation of an Executive Committee on Women and Family Issues and an enhancement of minority program initiatives.

Streamlining the AICPA

Our ability to continue serving members depends on our ability to manage our own operations as efficiently as possible. For that reason, in light of a projected budget deficiency, the Institute moved quickly to streamline the organization—reducing staff positions by 10 percent and launching a rigorous cost-reduction effort. The move of Institute personnel to the Harborside complex in Jersey City, N.J., will have long-term cost benefits for the Institute as well.

Such cost-containment efforts also guide state CPA society plans, as they face similar economic difficulties. Institute executive staff and state society representatives met during the year to reexamine current programs and services and to determine how overlap and duplication could be eliminated. The goal is to deliver services to the membership in the most efficient and cost-effective manner. As a result, a collaborative strategic planning process is being developed.

AICPA's new Harborside facilities.

Improving member service is also the goal of the Institute's newly created Product and Services Group. This staff "think tank" has begun to focus on the overall development and delivery of resources for members. Over the coming year, the group will analyze member needs and generate ideas for new products and services.

We will also work to improve and redefine the CPA's public image. With input from state society executives, members, public relations experts, the business press, and AICPA senior staff, we have formulated an aggressive public relations strategy and plan. Over the next 12 to 24 months, we will focus on enhancing and updating the image of the CPA profession—and increasing the visibility of the AICPA as a prestigious, professional organization.

Positioned For Success

As we move into the new year, we are poised for greater success on a number of fronts. The AICPA's renewed emphasis on quality management will guide every stage of our operation, helping us to keep our programs on track in terms of both member needs and budget considerations.

Whether enhancing the relevancy of the financial reporting process or providing resources to help CPAs work more efficiently, the AICPA's commitment to quality will remain foremost. In the coming year, we will strive to reinforce our support for members across the country and underscore our position as a leading advocate for the accounting profession.

As Chairman of the Board and President of the Institute, we thank our members who contribute time and energy to our committees, Key Person Program, and the success of our profession. With your involvement, the AICPA will continue to meet the challenges of a dynamic world with leadership and commitment.

Gerald A. Polansky

Gerald A. Polansky
Chairman of the Board

Phil Chenok

Philip B. Chenok
President

STRENGTHENING GOVERNMENT AND LEGISLATIVE RELATIONS

One of the AICPA's most critical functions is maintaining the profession's tradition of self-regulation. Much of that work is accomplished through the legislative activities of our Washington office. Through our member-based Key Person Program and educational efforts, we strive to ensure that any new legislation will enable the profession to continue serving the public interest, without imposing unfair expectations on the CPA.

Today, more than ever before, our Washington activities are a critical line of support for accounting professionals across the country.

Two leaders will leave the Institute's Washington office in 1992: B.Z. Lee, deputy chairman for federal affairs, and Donald H. Skadden, vice president—taxation. We thank Mr. Lee and Dr. Skadden for their many years of service to the CPA profession.

Leading the efforts of the Washington office in the coming years will be: **John E. Hunnicutt, group vice president—government affairs,** who is the senior officer in the Institute's Washington office, responsible for all activities of the office. **Gerald W. Padwe, vice president—taxation,** is the top staff officer of the 25,000-member Tax Division and will lead the Institute's efforts in that area.

Securities Litigation Reform

Bipartisan securities litigation reform legislation was introduced in the House and the Senate. Hearings will be held in both the House and Senate in early 1993. The legislation was endorsed by the Coalition to Eliminate Abusive Securities Suits (CEASS) and its 300 corporate, accounting, financial institution and association members. The AICPA is a leading participant in CEASS.

Both bills require that judgments against certain codefendants be based on proportionate contributions to claimed losses rather than on ability to pay most or all of the entire judgment. The measure also put potential plaintiffs and their lawyers on notice that they may have to pay the defendant's legal fees if their allegations are deemed meritless.

The AICPA will work for enactment of this legislation—which could represent the first step in the march toward restoration of fairness in the legal process.

The FDIC Improvement Act of 1991

As a result of the Institute's efforts, the accounting and auditing provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 are consistent with authoritative auditing literature. The legislation is intended to reform the federal deposit insurance system and the banking industry.

The Institute was successful in having unacceptable proposals excluded from the final bill. The most notable provisions dropped would have discharged existing auditors serving undercapitalized institutions, removed standard-setting from the private sector, and expanded accountants' liability.

Regulation of Financial Planners

The AICPA collaborated successfully with Rep. Rick Boucher (D-Va.) on legislation to provide broader regulation of financial planners. Two provisions opposed by the AICPA were dropped from the bill approved by the House Energy and Commerce Subcommittee on Telecommunications and Finance—the private right of action, under which investors would have been allowed to sue advisers, and a grant of rule-making authority permitting the SEC to interpret the provisions of the Investment Advisers Act of 1940. Deletion of the rule-making authority preserves the Act's present exclusion from registration granted to accountants who provide investment advice to clients as an incidental part of their services. AICPA Key Persons and members of the Personal Financial Planning Division played a critical role in convincing members of the subcommittee that these two provisions should be removed from the measure.

The amended version of the bill, which the AICPA supports, was introduced by Rep. Boucher as H.R. 5726 and has been approved by the full Energy and Commerce Committee. The AICPA commends Rep. Boucher for moving the bill forward and hopes Congress can enact a bill before it adjourns for the year. The measure goes next to the full House for a vote.

Securities Fraud Statute of Limitations

Legislative success must sometimes be gauged by subtle measures. Such is the case with the AICPA's opposition to legislation that would have extended the statute of limitations for cases brought under Section 10(b) of the Securities Exchange Act of 1934. In response to the opposition, the sponsors agreed to delay consideration of the legislation until such time as it can be examined in the broader context of overall liability exposure and reform.

Auditor Responsibilities

The AICPA is opposed to H.R. 4313, the Financial Fraud Detection and Disclosure Act, introduced by Reps. Ron Wyden (D-Ore.) and Edward Markey (D-Mass.). Among other goals, the bill seeks to transfer the setting of certain auditing standards from the private sector to the government.

Although improved "safe harbor" provisions were added to the proposed bill, the measure is still inadequate in terms of protecting auditors from unwarranted lawsuits. As it now stands, H.R. 4313 threatens to permit courts almost unfettered discretion in interpreting the standards.

Reform of Workload Compression and Estimated Tax Provisions

The AICPA continues to give top priority to reducing the calendar year-end workload compression problems that have burdened accountants since the Tax Reform Act of 1986.

Legislation being considered by Congress follows the revenue neutral provisions of Section 444, but would allow partnerships, S corporations and personal service corporations to elect any tax year-end if certain conditions are met. The election period would not terminate, so businesses could make the change at any time in the future. A practice guide will be distributed to Tax Division members and made available to other AICPA members to help CPAs encourage a move to fiscal years if the bill is enacted.

The Institute is also seeking relief from the complex individual estimated tax provisions enacted late in 1991. These rules forced many higher-income taxpayers to base their estimated payments on the current year's income, an impossible feat for taxpayers who do not know their quarterly share of income from partnerships, S corporations, or trusts.

Both of the AICPA's proposals were passed by Congress earlier in 1992, but were vetoed by the President for unrelated reasons. Congress is currently weighing these proposals in another bill.

Mobilizing Grassroots Support

The cornerstone of the AICPA's grassroots legislative activity is the AICPA Federal Key Person Program. A cooperative effort of the AICPA and state CPA societies, the Key Person Program assists in "localizing" in the minds of members of Congress the issues affecting the profession.

A priority for the AICPA is to maximize the effectiveness of the Key Person Program. During 1991–92, efforts to refine and improve communications with Key Persons were begun. A well-received "Key Person Coordinators' Conference" was held in Washington, D.C., where state society representatives learned useful techniques to manage the Key Person Programs in their jurisdictions. The conference also provided an opportunity for participants to meet with their representatives directly, as constituents. Plans are now being developed to produce a video-based "Key Person Training Program," which the AICPA and state CPA societies will utilize to ensure the ongoing strength of this grassroots activity.

During 1991–92, the AICPA also continued its highly successful "Congressional

Representative Derrick Butler (D-SC) addresses an AICPA conference.

Luncheon Program." Key Person groups from five states traveled to Washington to participate in a luncheon program with their congressional delegations. The program also enabled Key Persons to discuss important professional issues with members of Congress.

The Key Person Program will take on even greater significance in 1993, when a large number of new members of Congress will take office. The AICPA will continue to keep members informed on legislative issues that affect the profession. However, it is only with greater political activity by CPAs at both the state and federal level that we can truly continue to express the views of the profession. Of particular concern this coming year will be bills on such issues as federal regulation of insurance audits, telemarketing fraud, changes in pension plan audits, auditor responsibilities, and the investment advisers act.

The Source for Professional Guidance and Oversight

The AICPA is the principal source of professional guidance, support, and oversight needed to sustain the CPA's reputation for competency and objectivity. In the past year, our efforts in the technical arena have focused on enhancing relevancy in accounting and auditing, and clarifying concepts essential to CPA practices of all types.

Setting Accounting and Auditing Standards

In 1991–92, the Auditing Standards Board issued statements on auditing standards (SASs) that provide guidance on such important matters as the GAAP hierarchy, testing compliance with laws and regulations applicable to governmental entities and other recipients of governmental financial assistance, and reviewing interim financial information. These SASs supersede previously existing standards to provide updated and expanded auditing guidance.

To explain and promote implementation of the recently issued statements, the Auditing Standards Division conducted strategic briefings for members at nine locations around the country during May and June. To further assist members, the division issued its annual *Audit Risk Alert*, which provides non-authoritative guidance applicable to all audited entities, including an update of how audits may be affected by current economic, industry, regulatory, and accounting developments. Also, the AICPA published specialized *Audit Risk Alerts* in 18 industries, including state and local governments, not-for-profit organizations, and savings institutions.

In May, the Auditing Standards Division held a conference to consider issues related to the nine SASs (SAS Nos. 53–61) that were issued to address the "expectation gap" between the public's expectations of auditors and auditors' responsibilities under professional standards. The division plans to publish the proceedings and address the issues identified at the conference.

The past year was also productive for the Accounting Standards Division, which issued statements of position on accounting for software revenue recognition, real estate syndication income, foreclosed assets and foreign property and liability reinsurance. In addition, the Accounting Standards Executive Committee (AcSEC) began deliberating other issues important to the profession, including enhanced disclosures of risks and uncertainties, and accounting for environmental costs, advertising costs, and employee stock ownership plans.

Leading the Way in Professional Ethics

Every CPA who joins the AICPA agrees to abide by one of the most stringent codes of professional conduct in force today. The role of interpreting and enforcing the AICPA's exacting Code of Professional Conduct falls to the Professional Ethics Executive Committee.

This past year, the committee adopted a significant revision of the independence

standard that prohibits most loans to auditors from client financial institutions after January 1, 1992.

To help members understand and comply with the precepts of the AICPA's code, the ethics division offers a consultation service to members on questions involving independence and behavioral standards. During this year, the staff responded to more than 6,500 telephone inquiries.

In overseeing compliance, the division completed approximately 200 investigations as a result of referrals from federal government agencies alleging member failures to comply with professional technical standards. Members found to have violated those standards are ordinarily required to attend continuing professional education courses relating to those practice areas in which deficiencies were found and to submit samples of future work to the committee for review. The division completed 200 investigations of complaints involving independence and behavioral standards rules of conduct.

Although the ethics division focuses on correction and remedial actions, disciplinary actions also are required. Between August 1, 1991 and July 31, 1992, the Joint Trial Board adjudicated ethics charges against 51 AICPA and/or state society members resulting in 22 expulsions, 12 suspensions, 11 admonishments and 6 not guilty findings. Twenty-nine cases are scheduled to be heard before the end of 1992.

In addition, during the same period, disciplinary action under the automatic disciplinary provisions of the Institute's bylaws was taken against 60 members, resulting in 37 expulsions and 23 suspensions—figures which have remained fairly constant in recent years. (Criminal conviction of a member or suspension or revocation of a member's CPA certificate or license as a disciplinary measure by a state board of accountancy, will trigger automatic disciplinary action.)

Progress in Quality Review

Responses from firms that have completed their first reviews have shown an increased awareness among members that the process is designed to be informative rather than punitive. An opportunity to exchange ideas with another firm, quality review is proving to be a major force in raising the level of practice in the profession—a goal that brought about the creation of the mandatory practice review requirement.

Over 45,000 firms are either enrolled in the quality review program or are members of one or both of the SEC Practice Section and Private Companies Practice Section of the Division for CPA Firms. Over 11,000 peer and quality reviews were performed this past year.

Given today's litigious and economically challenging environment, the quality review process is more important than ever. It remains a clear demonstration of the profession's objectivity, competence, and commitment to self-regulation and high standards of performance.

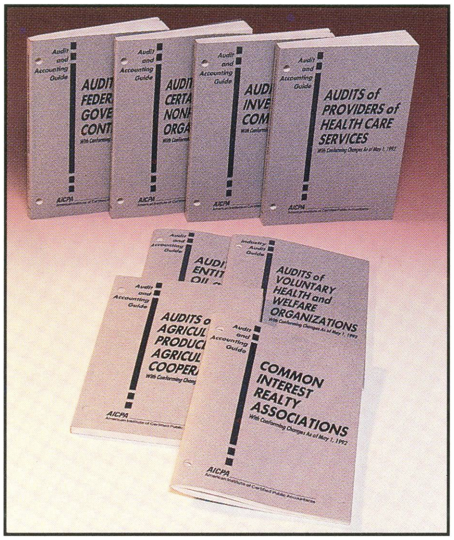
Providing Technical Information Support and Practice Aids

Providing timely, practical tools is a commitment of which the AICPA stands proud. This year, we focused on developing and modifying resources to help improve members' day-to-day efficiency. In responding to member needs and requests, we produced a number of print- and software-based practice aids. The software products include ATB Write-up, the newest AICPA release, designed to streamline an accountant's write-up services, and *IDEA*, a computer audit tool developed by the Canadian Institute of Chartered Accountants to extract and analyze data.

Additionally, we issued *Accounting Trends & Techniques*, the *Accounting and Auditing Manual*, and over 20 disclosure and reporting checklists. These practice aids offer members practical guidance on applying the latest authoritative literature in their accounting and auditing practices.

AICPA *Audit and Accounting Guides* provide members with specialized auditing guidance on financial accounting and reporting practices in over 20 industries. These guides are now available as a loose-leaf subscription service, as well as in individual paperback and electronic forms. The service also includes all of the Audit Risk Alerts published by the AICPA each year.

Another popular resource for members is the *Integrated Practice System (IPS)*, formerly the *Small Firm Library Series*. IPS consists of engagement manuals, software, and training programs that provide



practitioners with a step-by-step approach to conducting high-quality and cost-effective engagements.

Another source of professional support is our technical hotline, which answered over 64,000 inquiries this year on a variety of accounting, auditing, and quality review topics. Many of these questions and answers are available to all members through the *Technical Practice Aids* series, which is issued in loose-leaf and paperback editions.

Augmenting Software Support

To better serve members who have acquired AICPA software, the Institute started a new software support service called AICPA Software Connection. We added toll-free voice and fax lines, installed an electronic bulletin board, expanded support hours, and added more technical experts to answer members' software questions.

Software purchasers will receive these support services free of charge for six months after purchase and for a nominal annual fee thereafter.

Providing Timely Membership Publications

The past year was a period of great expansion and fine-tuning for the *Journal of Accountancy*. The *Journal* used many channels—surveys, roundtables, advisory boards, extensive personal contact at professional seminars and conferences—to determine readers' needs. This interaction resulted in many new columns, departments and special sections that deliver the information readers need in a format they find useful. The *Journal's* enhanced effectiveness helped to earn the magazine the First Place Award for General Excellence from the Society of National Association Publications.

To further help members in their practices, we continue to issue the *CPA Client Bulletin* and *CPA Client Tax Letter*, which together reach a combined total of 900,000 clients of members. These newsletters are complemented by a number of brochures on special subjects to educate members on important business and technical matters.

This past year also brought a new direction to *The CPA Letter*, which is now issued 10 times a year. In response to a reader survey, the *Letter* now incorporates more professional, late-breaking news. Additional changes will be incorporated into future issues. In addition, the *Letter* now carries special inserts for industry members and educators.

Enhancing Academic Excellence and Professional Development

Never before in the history of the accounting profession has the need for continuing education been greater. Competition from within and outside the profession has intensified the demand for expertise in an ever-growing range of financial services.

The AICPA is marshalling its resources to provide effective professional development products to today's members, while simultaneously taking steps to ensure that tomorrow's professionals will be adequately prepared for the challenges they will face.

Programs to Improve Academic Quality

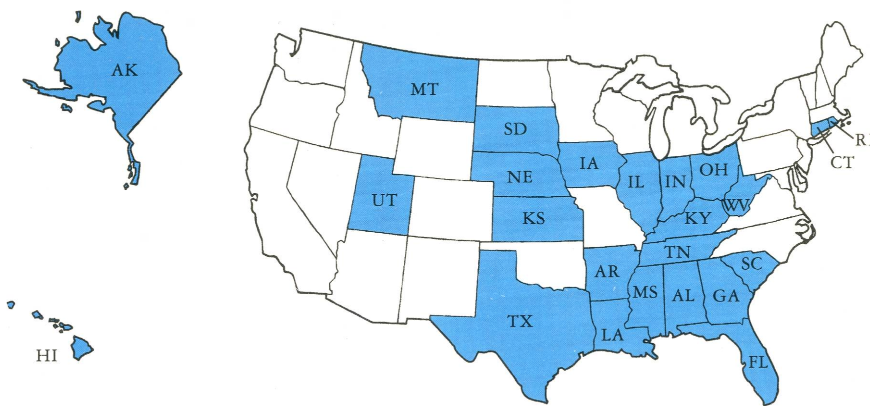
Several programs were initiated this year to enhance the quality of accounting education, with particular emphasis on improving teaching effectiveness.

The AICPA sponsored its first mini-conference for accounting educators in cooperation with Georgia State University. The two-day conference on Innovations in Accounting Pedagogy included workshops on use of the case method with small and large groups and on technical innovations supporting electronic classrooms of the future. In addition, a one-day workshop on "Improving Teaching Effectiveness" launched the new CPE for Accounting Educators Program, which was presented in conjunction with regional meetings of the American Accounting Association.

To encourage the development of case materials for the classroom, the AICPA implemented the Professional/Practitioner Case Development Program, designed to generate a set of "real world" cases for use in financial and managerial accounting courses. Eight teams will present their cases at the next mini-conference and have their cases published in a compendium for distribution to all accounting program administrators.

Finally, to help increase the number of qualified accounting faculty, the division awarded $225,500 in fellowships this year to doctoral candidates in accounting.

Status of Legislative Initiatives



Expanding Education Requirements

Support continues for the Institute's membership requirement for 150 semester hours of education for new applicants after the year 2000. Twenty-four states thus far have changed their laws to require 150 hours of education for CPA candidates. Almost all of the states are adopting the model language for the legislation as recommended by the AICPA and NASBA.

The underlying concept of the 150-hour requirement is to enable students to obtain a quality education that will better prepare them for professional careers. In a related effort, the AICPA produced *Academic Preparation to Become a CPA* to provide guidance to planners of accounting curricula on what should be included in the students' educational programs.

More Aggressive Recruiting Efforts

The AICPA is embarking on a new recruitment campaign to attract the highly qualified individuals that the profession will need to meet tomorrow's challenges. Based on the results of a major research study to determine the way students make career decisions and how they view the profession, a marketing plan was developed that envisions a profession-wide effort to promote careers in accounting.

Additional research into the best methods for positioning the profession to today's students revealed a very positive reaction to the diversity that the profession offers, both in the range of services CPAs provide and the career options that are available. Working with the state CPA societies and others, we are developing new career materials and strategies to communicate the profession's benefits more effectively.

At the same time, we are striving to improve the profession's current integration of minorities. To this end, we awarded 739 scholarships totaling $516,500 to minority students interested in pursuing an accounting major in college.

Meeting CPE Challenges

Members' ratings of AICPA continuing professional education (CPE) program materials, seminar instructors and conference speakers continued to be very high. The use of computer technology in the graphics and print quality of program materials was particularly evident. Changes in the format, sets and direction of AICPA video programs have also been highly lauded by members.

Most importantly, the Institute continues to expand its offerings of industry-oriented courses and timely, practical materials for all members. Helping members meet their educational needs with high-quality, cost-effective CPE continues to be one of the Institute's primary goals.

Meeting the Needs of a Diverse Membership

As the accounting profession has changed, so has the AICPA. In recent years, our member base—and the nature of its needs—has grown increasingly diverse. Meeting the challenges of professional diversity has propelled us to launch new membership sections and committees, and to accelerate our efforts to support CPAs in every environment in which they operate.

Division for CPA Firms

The Division for CPA Firms is an organization of CPA firms dedicated to maintaining the highest standards of quality. Consisting of the SEC Practice Section (SECPS) and the Private Companies Practice Section (PCPS), the division's cornerstone is its peer review program. Over 1991–92, the SECPS conducted an unprecedented 380 peer reviews—an increase that reflects the fact that membership in the SECPS is now mandatory for firms that audit SEC registrants.

This past year also brought an increase in PCPS membership, which now stands at more than 6,650 member firms representing 145,000 professionals—including more than 82,000 CPAs. Forty-four percent of member firms have two to five partners and 28 percent are sole practitioners.

The PCPS and the Private Companies Practice Executive Committee stepped up their communications efforts over the past year. One tangible result was a mobilization of the members which resulted in 1,400 letters to Congress calling for relief from calendar-year filing requirements.

Other recent efforts to better represent members included expanding the number of regional networking forums for smaller firms by 67 percent and surveying 1,000 PCPS member firms *and* 1,000 non-PCPS member firms about their most pressing concerns and satisfaction with the PCPS and the AICPA. The survey results will be used to help us determine how we can best help member firms prosper.

Sources and Occupations of AICPA Membership

	1980	1982	1984	1986	1988	1990	1992
Total AICPA Membership	161,319	188,706	218,855	240,947	272,479	295,633	308,280
Public Accounting	54.1%	52.5%	51.5%	49.1%	46.5%	44.5%	42.6%
Business & Industry	35.5%	37.6%	38.4%	39.5%	39.6%	40.4%	40.6%
Education	2.9%	2.5%	2.7%	2.8%	2.7%	2.7%	2.4%
Government	3.3%	3.2%	3.3%	3.2%	3.6%	3.7%	4.1%
Retired & Miscellaneous	4.2%	4.2%	4.1%	5.4%	7.6%	8.7%	10.3%
Membership in Public Practice	87,339	99,141	112,673	118,226	126,771	131,508	131,306
Firms with one member	23.8%	23.5%	23.1%	25.1%	24.8%	24.3%	23.6%
Firms with 2 to 9 members	33.1%	34.0%	34.0%	34.3%	33.6%	34.3%	35.5%
Firms with 10 or more members, except the	13.0%	14.5%	15.1%	15.0%	16.4%	17.6%	19.8%
25 largest firms	30.1%	28.0%	27.8%	25.6%	25.2%	23.8%	21.1%

The Technical Issues Committee (TIC) has established an ongoing relationship with local firm members of the Auditing Standards Board to assist in communicating small firm views about proposed standards. Additionally, TIC and the Private Companies Practice Executive Committee are working on establishing a liaison with Robert Morris Associates, an association of bank lending officers, for the mutual benefit of both organizations' members.

MAP Committee

The Management of an Accounting Practice (MAP) Committee continued to provide members with help and information on how to practice profitably in challenging times. *Managing the Malpractice Maze*, for instance, was published to assist firms in avoiding or defending litigation claims.

The MAP Committee also finalized plans for presentation of a combined National Practice Management—National Marketing Conference program in the fall of 1992. If such a combined format is successful, a similar joint program with the National Firm Administrators Conference may be arranged for 1993.

Tax Division

The Tax Division actively pursued legislative issues of key concern to section members, focusing on efforts to relieve the calendar year-end workload compression problem, correct the new complex rules governing individual estimated taxes, and simplify the tax law in general.

The AICPA helped develop a major tax simplification proposal that calls for:

- A simplified method of applying the uniform capitalization rules;
- Restoration of an estimated tax safe harbor for smaller corporations that had not paid tax in the prior year;
- Simplification of the earned income credit; and
- Creation of a safe harbor for determining a principal residence in a divorce or separation.

We further heightened Washington's awareness of the problem of tax complexity by declaring April 16 "Tax Simplification Day" and by publishing a *Blueprint for Tax Simplification* to help tax legislators identify and find alternatives to complexity.

The Tax Division also actively commented on proposed regulations during 1991–92, and provided extensive comments on IRS tax forms, relief procedures for missed deadlines, and IRS collections publications. In addition, the division helped to improve various IRS programs, including the "Compliance 2000" program, the coordinated examination program for large corporations, and the prioritization of IRS regulation efforts.

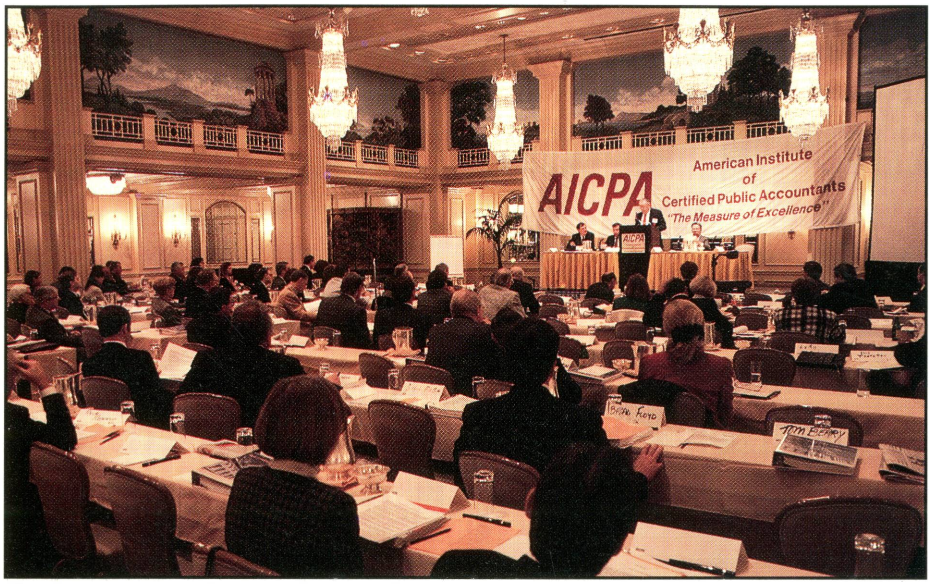
To help tax practitioners stay up to date on technical information, the division produced a number of publications, including practice guides on fiscal years, estimated taxes, bankruptcy taxation and employee/independent contractor issues, as well as the annual *Tax Checklists and Practice Guides* and *Survey of Computer Uses in Tax Practice*.

Personal Financial Planning Division

The Personal Financial Planning (PFP) Division made significant progress on several fronts this past year. In the area of legislation, attention was focused on attempts to regulate CPAs who provide PFP services. Representatives from the PFP Executive Committee testified on the profession's behalf at a hearing held in the House on a discussion draft of the Investment Adviser Regulatory Enhancement and Disclosure Act of 1992.

To promote the Accredited Personal Financial Specialist (APFS) program to both the public and the profession, the division launched a successful public awareness program. Part of the program included the appointment of 43 State APFS Program Leaders, who publicized the benefits of having the designation. In addition, a massive public relations effort was launched, including direct mail campaigns, advertisements, bylined articles, and media coverage. As a result, we saw more than a 50-percent increase in the number of CPAs who sat for the APFS examination this year. Today, nearly 600 CPAs hold this prestigious designation.

To further elevate consistency and quality of personal financial planning services, the PFP Executive Committee issued an exposure draft of a proposed statement on responsibilities in PFP practice, *Basic PFP Engagement Functions and Responsibilities*. We also



AICPA conference

sponsored a highly rated PFP Technical Conference offering the latest PFP information and strategies, and continued publishing significant practice aids as updates to the *PFP Manual*. Scheduled for future release are revisions to several modules in the *PFP Manual* on such subjects as cash flow planning, estate planning, retirement planning, and marketing and managing a PFP practice. A new practice aid, *Guide to Risk Management and Insurance*, was added to the PFP library series and the *PFP Manual*. Another practice aid, *Guide to Planning for the Closely Held Business Owner*, is soon to be published.

Other recent efforts to better represent members included conducting a survey to determine members' needs. Consequently, we modified the division's bimonthly newsletter, the *Planner*, and the *PFP Manual*. We also introduced significant discounts on PFP-related publications.

To educate the general public about the role of CPAs as personal financial advisers, we arranged for PFP Division spokespersons to be interviewed by national and local media on PFP topics. Our public relations campaign included successful placement of PFP-related articles in significant publications, including *The New York Times, The Wall Street Journal, Money, Inc.*, and other national publications.

Management Consulting Services Division

The issuance this year of the new Statement on Standards for Consulting Services signaled the start of a new era for CPA consulting services. Therefore, we changed the 5,000-plus member division's name from Management Advisory Services (MAS) to Management Consulting Services (MCS).

Even more forward-looking was the MCS Executive Committee's decision to propose a specialty accreditation program for business valuation services and to draft standards for business valuation consulting services. Both projects are underway.

The division published a number of new aids, including the first industry consulting practice aids. Restaurants and food service industries were the subjects of one publication, with a second industry aid discussing CPA consulting services for law firms. New practice aids in the small business consulting series addressed diverse topics including planning for succession and developing and improving client's recruitment, selection and orientation programs.

Information Technology Division

Technology is changing the way businesses operate and the way management makes decisions. To aid CPAs in maintaining their leadership role in information management, the AICPA created the Information Technology Member Section for CPAs in practice, industry, education, and government.

The section has provided its members with a technology planning guide, research reports on the impact of future technologies, a quarterly newsletter with practical advice on implementing technologies within an organization, and significant discounts on selected hardware and software.

The section will continue providing publications and services to improve the accountant's expertise in understanding and using new technologies, and will conduct public awareness programs to enhance the image of the CPA's skill in information technology.

Members in Industry Executive Committee

This past year, the Members in Industry Executive Committee launched its strategic plan for meeting the needs of the growing number of AICPA industry members. The committee focused on three goals: increasing the availability and practicality of the Institute's continuing professional education programs and publications for industry members, representing industry members on professional issues, and improving communications.

One of the most valued information resources for industry members has been the National Industry Conference. This year's conference attracted over 600 participants and attained its highest rating in six years. To improve access to this event, the Institute will sponsor two conferences in 1993, scheduled to take place in Orlando and Dallas.

Members in industry also saw an increase in the number of publications addressing their needs. Available to members this past year was the *Selected Readings for Financial Executives*, a self-study course covering a broad range of topics based on a diverse collection of recent articles reprinted from the top business and professional journals. The committee also published *Holding Down Health Care Costs*—a well-received publication that represents the first in a series of how-to publications planned by the committee. Additionally, we published four issues of *The Financial Manager's Report (FMR)*. Mailed to all members in industry as a quarterly insert in *The CPA Letter, FMR* combines important information about Institute, committee and professional activities with practical guidance on aspects of the jobs of CPA financial managers.

We also made strides in assertively representing the concerns of industry members on key professional issues. A special task force of the committee communicated the industry member perspective to the Committee of Sponsoring Organizations of the Treadway Commission as they revised *Internal Control—Integrated Framework*. The document is designed to establish a uniform definition of internal control and has been described as one of the most important works on corporate governance to be produced in recent years.

Another committee task force is working on providing guidance as to how the AICPA Code of Professional Conduct applies to members in industry. Output from this group is expected in 1993.

Even more significant to industry members is the AICPA's recent decision to establish a permanent Professional Issues Subcommittee, to begin work in the 1992–1993 committee year. This subcommittee will enable us to substantially expand industry member input into significant professional developments.

Management Accounting Executive Committee

During the year, a Management Accounting Executive Committee was formed to develop and comment on management accounting techniques that can help businesses achieve competitive advantages. The committee will focus on conducting research, developing practice aids, and addressing technical issues.

Following its first meeting in May, the committee created task forces to study three critical management accounting issues: the productivity of financial management professionals; the use of merged financial and nonfinancial performance measures in managing a business; and activity-based costing and activity-based management.

These task forces are charged with assembling the most critical data on each subject and disseminating that information to members in the most efficient way possible.

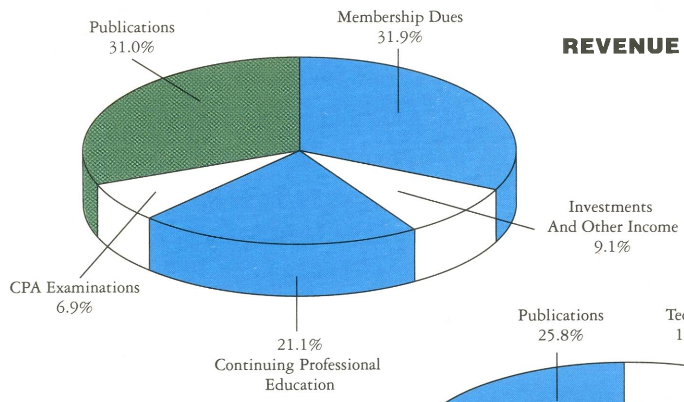
Operating results improved by $3.6 million over the prior year before giving effect to a one-time charge of $6.3 million in connection with the relocation of much of the Institute's operations from New York City to Harborside Financial Center in Jersey City, New Jersey. Revenue increased to $110.5 million, or about $3.0 million over the prior year, while operating expenses were $700,000 lower or $109.8 million. Cash flows from operations were $2.5 million, or $4.6 million better than last year.

The Institute was able to contain expenses by reintroducing and expanding on the cost-containment program initiated last year in the face of the economic downturn which continued during 1991–92. The number of authorized staff has been reduced by about 10 percent, and a seven-month freeze on salary increases for all staff also was instituted in January. However, lower staff turnover, salary increases in the early part of the fiscal year, and severance payments, all caused salary cost to increase by about $1.0 million overall, or 3 percent more than the prior year. Occupancy costs also increased by $1.5 million primarily because of the Harborside relocation and the renegotiation of our lease on the remaining portion of space retained in New York City. On the positive side, special efforts resulted in reducing meeting and travel expenses of committee members and staff by $1.4 million, and the costs of professional services and promotions and advertising by $1.6 million.

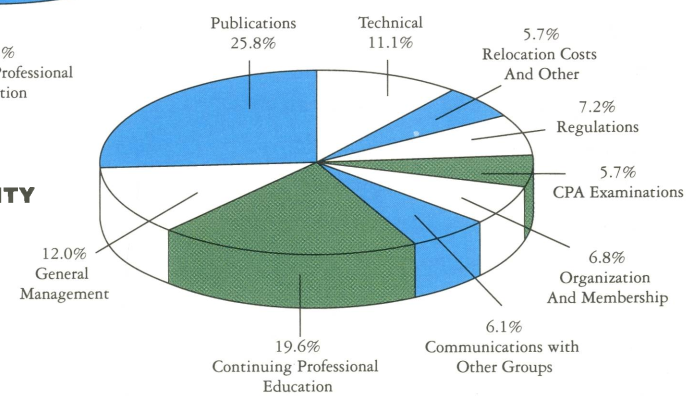
The move of a substantial portion of the New York operation to Harborside assures the Institute of suitable quarters for necessary expansion well into the next century at costs that will be substantially lower than if we had remained in New York City. Harborside was selected as the most desirable location after a careful assessment was made of costs, benefits, and risks. Aggregate savings are estimated to be $117 million over the 20-year term of the Harborside lease. To help finance the one-time capital expenditure of $8.5 million associated with the move, the Institute obtained commitments for secured borrowings of up to $7.0 million, including $2.0 million from state and local development agencies, all at favorable interest rates. Relocation expenses, amounting to $6.3 million, are required to be recognized as a current cost, whereas offsetting rent concessions of $9.5 million in the form of rent abatements and cash payments must be used to reduce rent expense over the 20-year term of the Harborside lease.

The budget for 1992–93 provides for an excess of revenue over expense of $2.0 million. After implementing all other feasible remedial actions, Council authorized a dues increase of 20 percent overall, the first since 1989–90. While every effort will be made to keep future dues increases to a minimum, member dues are essential in a member-driven and member-supported organization. More frequent but modest dues increases will be necessary in the future if the Institute is to maintain the present level of member programs and services, to increase the fund balance, and to expand programs where necessary.

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 of 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 (comprised of 5 non-management directors), is responsible for providing reasonable assurance that management fulfills its reponsibilities 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

Philip B. Chenok
President

Donald L. Adams

Donald L. Adams
Vice President, Finance & Administration

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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, 1992 and 1991, 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, 1992 and 1991 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, 1992 and 1991, and the results of their operations and the 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 31, 1992

American Institute of Certified Public Accountants — Balance Sheet July 31

	1992	1991
	($000)	
Assets:		
Cash	**$ 269**	$ 197
Marketable securities	**17,716**	17,257
Accounts receivable (less an allowance for doubtful accounts: 1992, $421,000; 1991, $465,000)	**11,462**	10,517
Inventories	**3,941**	4,110
Deferred costs and prepaid expenses	**6,475**	7,400
Furniture, equipment, and leasehold improvements, net	**7,483**	9,326
	47,346	48,807
Funds held for Division for CPA Firms	**3,170**	3,463
	$50,516	$52,270
Liabilities and Fund Balances:		
Liabilities and deferred revenue:		
Accounts payable and other liabilities	**$15,178**	$10,851
Advance dues	**13,267**	14,291
Unearned revenue from subscriptions and other sources	**7,643**	7,594
Long-term debt	**800**	—
	36,888	32,736
Funds held for Division for CPA Firms	**3,170**	3,463
General fund balances	**10,458**	16,071
	$50,516	$52,270

American Institute of Certified Public Accountants — Statement of Changes in Fund Balances Year Ended July 31

	1992	1991
	($000)	
General Fund:		
Fund balances, beginning of year	**$16,071**	$19,004
Excess of expenses over revenue	**(5,613)**	(2,933)
Fund balances, end of year	**$10,458**	$16,071

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

	1992	1991
	($000)	
Revenue:		
Dues	**$ 35,176**	$ 33,370
Publications	**34,222**	32,672
Continuing professional education	**23,301**	24,896
Examinations	**7,661**	7,719
Investment and sundry income	**6,799**	5,472
Conferences	**3,297**	3,401
	110,456	107,530
Expenses (see also Summary of Expenses by Activity):		
Salaries	**33,821**	32,825
Cost of sales	**22,961**	22,706
Occupancy	**11,674**	10,201
Personnel costs	**6,938**	6,754
Postage and shipping	**6,747**	6,582
Meetings and travel	**4,812**	6,245
Printing and paper	**4,612**	4,953
Professional services	**3,409**	4,489
Promotions and advertising	**3,087**	3,576
Commercial services	**2,096**	1,714
Telephone	**1,659**	1,752
Equipment rental and maintenance	**1,430**	1,416
Software development	**1,180**	953
Support for professional organizations	**1,129**	1,429
Office and computer supplies	**1,053**	1,356
Mailing services	**687**	732
Fees	**623**	673
Income taxes	**195**	354
Other	**1,651**	1,753
	109,764	110,463
Relocation	**6,305**	—
	116,069	110,463
Excess of expenses over revenue	**$ (5,613)**	$ (2,933)

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

	1992	1991
	($000)	
Examinations	$ 6,488	$ 6,428
Publications:		
Produced for sale	24,774	24,219
Distributed to members and others	4,517	4,906
Continuing professional education	22,247	22,112
Conferences	2,269	2,708
Technical:		
Accounting and review services	81	65
Accounting standards	1,319	1,413
Auditing standards	1,546	1,953
Federal taxation	3,034	3,232
Management advisory services	777	849
International practice	654	626
Technical assistance to members	2,309	2,549
Library	1,481	1,447
NAARS program	632	424
Financial Accounting Foundation support	603	591
Accountants' legal liability	233	302
Regulation:		
Ethics and trial board	1,815	1,772
State legislation	502	382
Division for CPA Firms	947	1,000
Quality review programs	4,941	4,830
Organization and membership:		
Board, council and annual meetings	2,008	2,055
Nominations and committee appointments	192	226
Communications with members	467	433
Membership services	3,443	3,680
Special organizational studies	1,597	720
Communications with other groups:		
Public relations	1,206	1,242
State societies	170	251
Universities	1,297	1,265
Federal government	4,298	4,507
Assistance programs for minority students	318	777
General management	13,599	13,499
	109,764	110,463
Relocation	6,305	—
	116,069	110,463

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

	1992	1991
	($000)	
Increase (Decrease) in Cash:		
Cash Flows from Operating Activities:		
Cash received from members and customers	**$ 106,502**	$ 104,161
Interest and dividends received	**1,187**	1,483
Cash paid to suppliers and employees	**(105,300)**	(107,339)
Income taxes paid	**(147)**	(479)
Income taxes refunded	**258**	100
Net cash provided by (used in) operating activities	**2,500**	(2,074)
Cash Flows from Investing Activities:		
Payments for purchase of equipment	**(3,760)**	(2,736)
Payments for purchase of marketable securities	**(27,823)**	(14,386)
Proceeds from sale of marketable securities	**28,355**	19,186
Net cash provided by (used in) investing activities	**(3,228)**	2,064
Cash Flows from Financing Activities:		
Proceeds of long-term debt	**800**	—
Net increase (decrease) in cash	**72**	(10)
Cash, beginning of year	**197**	207
Cash, end of year	**$ 269**	$ 197
Reconciliation of excess of expenses over revenue to net cash provided by (used in) operating activities:		
Excess of expenses over revenue	**$ (5,613)**	$ (2,933)
Adjustments to reconcile excess of expenses over revenue to net cash provided by (used in) operating activities:		
Depreciation and amortization	**3,829**	3,461
Gain on sale of marketable securities	**(991)**	(517)
Amortization of subscription revenue	**(213)**	(251)
Provision for:		
Losses on accounts receivable	**71**	244
Obsolete inventories	**510**	450
Deferred rent	**3,950**	—
Pension expense	**321**	80
Writedown of furniture and leasehold improvements related to relocation	**2,955**	—
(Increase) in:		
Accounts receivable	**(1,016)**	(1,123)
Inventories	**(341)**	(1,001)
Deferred costs and prepaid expenses	**(256)**	(1,541)
Increase (decrease) in:		
Accounts payable and other liabilities	**56**	1,052
Advance dues	**(1,024)**	(303)
Unearned revenue from subscriptions and other sources	**262**	308
Total adjustments	**8,113**	859
Net cash provided by (used in) operating activities	**$ 2,500**	$ (2,074)

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.	
	1992	1991	1992	1991	1992	1991
	($000)		($000)		($000)	
Assets:						
Cash	$ 8	$ 8	$ 7	$ 5	$ 2	$ 2
Marketable securities, at lower of cost or market*	1,986	2,479	1,024	1,012	1,198	921
Notes and mortgages receivable (net of allowance for doubtful collections: 1992, $48,000; 1991, $51,000)	—	—	475	462	—	—
Dues receivable	—	—	—	—	985	995
Other receivables	88	30	17	18	17	20
	$2,082	$2,517	$1,523	$1,497	$2,202	$1,938
Liabilities and Fund Balances:						
Liabilities and deferred revenue:						
Accounts payable	$ 12	$ 6	$ 4	$ 2	$ 288	$ 271
Advance dues	—	—	—	—	1,300	1,163
Scholarships payable	357	457	—	—	—	—
	369	463	4	2	1,588	1,434
Fund balances:						
General	67	38	1,519	1,495	614	504
Library	926	917	—	—	—	—
John L. Carey Scholarship Fund	481	453	—	—	—	—
Accounting Education Fund for Disadvantaged Students	216	624	—	—	—	—
E.W. Sells Award Fund	22	21	—	—	—	—
Sydney Orbach Fund	1	1	—	—	—	—
	1,713	2,054	1,519	1,495	614	504
	$2,082	$2,517	$1,523	$1,497	$2,202	$1,938
***NOTE:**						
Marketable securities at market	$2,068	$2,568	$1,130	$1,114	$1,280	$1,005

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.	
	1992	1991	1992	1991	1992	1991
	($000)		($000)		($000)	
Additions:						
Investment and sundry income	$ 165	$ 154	$ 56	$ 71	$ 65	$ 102
Gain on sale of securities	59	33	86	42	63	31
Contributions/dues	30	472	174	166	3,250	3,059
	254	659	316	279	3,378	3,192
Deductions:						
Support/scholarships	585	729	—	—	2,953	3,011
Assistance to members and families	—	—	255	374	—	—
FASB subscription service	—	—	—	—	200	200
Other	10	9	37	40	115	181
	595	738	292	414	3,268	3,392
Increase (decrease) in fund balances	(341)	(79)	24	(135)	110	(200)
Fund balances, beginning of year	2,054	2,133	1,495	1,630	504	704
Fund balances, end of year	$1,713	$2,054	$1,519	$1,495	$ 614	$ 504

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.
- Financial instruments which potentially subject the Institute to concentrations of credit risk consist principally of marketable debt securities and trade receivables. The Institute places its temporary cash investments with creditworthy, high quality financial institutions. The Institute holds bonds and notes issued by the United States government and financially strong corporations. By policy, these investments are kept within limits designed to prevent risks caused by concentration. Credit risk with respect to trade receivables are limited because the Institute deals with a large number of customers in a wide geographic area. As of July 31, 1992, the Institute has no significant concentrations of credit risk.
- 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 orders are received and processed. 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.
- 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.

1. Marketable Securities

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

	1992	1991
	($000)	
U.S. Treasury bonds and notes	**$ 6,080**	$ 3,132
Bonds, notes, and money market funds	**7,478**	9,516
Equities	**4,158**	4,609
	$17,716	$17,257
Market value	**$18,773**	$18,296

2. Inventories

Inventories at July 31 consist of:

	1992	1991
	($000)	
Paper and material stock	**$ 635**	$ 833
Publications in process	**972**	732
Printed publications and course material	**2,334**	2,545
	$ 3,941	$ 4,110

3. Furniture, Equipment, and Leasehold Improvements

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

	1992	1991
	($000)	
Furniture and equipment	**$11,368**	$11,946
Leasehold improvements	**2,408**	7,056
	13,776	19,002
Less accumulated depreciation and amortization	**6,293**	9,676
	$ 7,483	$ 9,326

Depreciation of furniture and equipment and amortization of leasehold improvements for the years ended July 31, 1992 and 1991 were $2,649,000 and $2,500,000.

4. Long-Term Debt

Long-term debt at July 31, 1992 consists of an $800,000 note payable bearing interest at an annual rate of 6 percent and requiring quarterly interest payments commencing September 1992, through August 1995, the maturity date. The note is secured by equipment with a cost of approximately $800,000. Annual principal payments of long-term debt in fiscal years subsequent to July 31, 1992 are as follows: 1993 – $200,000; 1994 and 1995 – $300,000 each.

5. 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 from advertising in the *Journal of Accountancy* and the *Tax Adviser.*

6. Relocation Expense

During 1991, the Institute announced a plan to reduce future costs and improve operating efficiencies by the relocation of a major portion of the Institute's operations to new rental premises in Jersey City, New Jersey in the summer of 1992. The relocation expenses are shown as a separate item in the accompanying statement of revenue and expenses and amount to $6,305,000, which includes lease termination costs, future rent payments, and the abandonment of the related leasehold improvements and other assets.

Rent concessions of $9,488,000 will be used to reduce rent expense over the twenty-year term of the New Jersey lease. The concessions consist of: (1) a total abatement of rent payments for the first 29 months of the lease ($7,488,000) and (2) $2,000,000 to be paid to the Institute on a scheduled basis during the first five years of the lease.

7. Commitments

Leases

Minimum rental commitments on noncancellable real estate and equipment leases in effect as of July 31, 1992 are $123,063,000. This amount does not include future escalations for real estate taxes and building operating expenses. The leases for real estate include scheduled base rent increases over the lease terms. The total amount of the base rent payments is being charged to expense using the straight-line method over the lease terms. Minimum rental commitments are:

Year Ending July 31	
($000)	
1993	**$ 4,347**
1994	**4,186**
1995	**5,901**
1996	**6,646**
1997	**6,877**
Years subsequent to 1997	**95,106**
	$123,063

Total commitments have increased by over $25,000,000 since July 31, 1991. Most of this increase is related to an extension of the lease for the remaining premises in New York City. Rental expense for the years ended July 31, 1992 and 1991 was $9,629,000 and $8,115,000.

Capital Expenditures

As of July 31, 1992, the Institute had capital expenditure purchase commitments outstanding of approximately $8,500,000 for the construction of leasehold improvements and for the purchase of furniture and equipment. This amount includes commitments associated with the Institute's new premises in Jersey City, New Jersey and for the renovation of the remaining premises in New York City. During 1992, the Institute obtained commitments permitting secured borrowings of up to $7,000,000 to finance the completion of these projects. The commitment includes $2,000,000 from state and local government development agencies. As of July 31, 1992, borrowings of $800,000 had been made under these commitments.

8. 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:

	1992	1991
	($000)	
Service cost—benefits earned during the year	**$ 1,256**	$ 1,083
Interest cost on projected benefit obligation	**1,575**	1,406
Return on plan assets:		
Actual	**(3,117)**	(3,950)
Deferred	**810**	1,814
Net amortization of unrecognized net asset	**(274)**	(274)
Net amortization of unrecognized prior service cost and net loss	**71**	1
	$ 321	$ 80

Funded status of the plan:

May 1

	1992	1991
	($000)	
Actuarial present value of projected benefit obligation, based on employment service to date and current salary levels:		
Vested benefits	**$16,205**	$14,305
Non-vested benefits	**1,085**	930
Additional amounts related to projected salary increases	**4,411**	4,305
Projected benefit obligation	**$21,701**	$19,540
Assets available for benefits:		
Plan assets at fair value	**$30,186**	$27,958
Accrued pension cost	**434**	113
	$30,620	$28,071
Assets in excess of projected benefit obligation:		
Unamortized portion of amount existing at date FAS No. 87 was adopted	**$ 3,159**	$ 3,433
Amount arising subsequent to adoption of FAS No. 87	**7,298**	6,807
Unrecognized prior service cost	**(1,538)**	(1,709)
	$ 8,919	$ 8,531

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 amortized in determining pension expense over 18.5 years. Unrecognized prior service costs are being amortized in determining pension expense over the remaining service periods of 12 or 11 years, respectively, from the dates of plan amendments. Net investment and actuarial (gains) or losses realized subsequent to May 1, 1985 over those assumed and from changes in assumptions are being amortized in determining pension expense over a period of 11 years.

The discount rate used to determine the actuarial present value of the projected benefit obligation was 8¼ % as of May 1, 1992 and 1991. The expected long-term rate of return on plan assets used in determining net pension expense for the years ended July 31, 1992 and 1991 was 9½ %. The assumed rate of increase in future compensation levels was 5½ % for both 1992 and 1991.

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 $376,000 and $311,000 for the years ended July 31, 1992 and 1991.

9. Health Care and Life Insurance Plans

The Institute sponsors employee post-retirement 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 $189,000 and $188,000 for the years ended July 31, 1992 and 1991.

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 continuing to evaluate various alternative arrangements 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.

10. 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.

11. 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 $2,700,000 for the calendar year 1992.

The ARA also makes a best efforts commitment to raise funds for support of the Governmental Accounting Standards Board (GASB). The commitment is $425,000 for the calendar year 1992. It is anticipated the ARA will continue to support the FASB and GASB.

12. 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:

July 31, 1992

	Private Companies Practice Section	SEC Practice Section
	($000)	
Balance Sheet		
Assets:		
Cash	$ 5	$ 7
Marketable securities at lower of cost or market*	1,691	1,467
	1,696	1,474
Dues and other receivables	71	254
	$1,767	$1,728
Liabilities and Fund Balances:		
Accounts payable	$ 1	$ 36
Advance dues	357	864
Fund balances	1,409	828
	$1,767	$1,728
*NOTE: Marketable securities at market	$1,721	$1,542

Year Ended July 31, 1992

	Private Companies Practice Section	SEC Practice Section
	($000)	
Statement of Changes in Fund Balances		
Additions:		
Dues	$ 821	$1,575
Gain on sale of securities	23	58
Investment and sundry income	456	85
	1,300	1,718
Deductions:		
Expenses of Public Oversight Board:		
Salaries and fees	—	886
Administrative expenses	—	651
	—	1,537
Peer review manuals	29	26
Printing	100	64
Membership directory	64	—
Administrative and other expenses	952	362
	1,145	1,989
Net increase (decrease) in funds	155	(271)
Fund balances, beginning of year	1,254	1,099
Fund balances, end of year	$1,409	$ 828

Included in administrative and other expenses for the year ended July 31, 1992 are reimbursements to the Institute, in connection with quality review programs, of $170,000 from the Private Companies Practice Section and $280,000 from the SEC Practice Section.

In addition to the expenses shown above, the Institute incurred expenses during the years ended July 31, 1992 and 1991 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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