1993

AICPA annual report 1992-93; Progress and opportunities

American Institute of Certified Public Accountants

AICPA

American Institute of Certified Public Accountants

Progress and Opportunities

Annual Report 1992-1993

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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As the political and economic climate of the country continues to change, so does the accounting profession. This year, the American Institute of Certified Public Accountants (AICPA) assumed a far more aggressive role in government affairs and in the enhancement of member programs. Our goals remain the same: to serve your interests while maintaining the profession's uncompromising commitment to the public interest.

To achieve these goals, the accounting profession has begun to explore new perspectives on old challenges and traditional responsibilities. The member volunteers, state society leaders, and AICPA staff have worked together over the past year to raise questions about what we do and how we can do it better.

As you review the highlights of this watershed year, you will learn how the AICPA is advancing the interests of the accounting profession while capitalizing on opportunities to provide members with more legislative clout, more relevant technical guidance and support, and a more accurate and credible public image.

PROMOTING A NEW ERA IN FINANCIAL REPORTING

The profession's number one challenge is to continue to fulfill its expanding responsibilities in the face of unprecedented legal liability. CPAs are being called upon to do more and more, while an exacting legal system and the principle of joint and several liability often force accountants to shoulder losses caused by other parties. Frequently, CPAs are compelled to settle rather than fight lawsuits because of the possibility that enormous judgments would cripple them. Moreover, some firms are refusing to audit companies in high-risk industries; others are ceasing to provide audit services altogether. At the same time, confidence in the financial reporting system has been shaken by highly publicized business failures.

These events have raised questions about the effectiveness of the audit function; the integrity, objectivity and competence of independent auditors; and the profession's self-regulatory system.

To solidify the public trust and create an environment in which our calls for changes in the litigation system will be heeded, the Institute's Board of Directors recently announced an unprecedented initiative to strengthen the U.S. financial reporting system. Incorporating many of the recommendations made in the Public Oversight Board's special report, "In the Public Interest: Issues Confronting the Accounting Profession," the plan calls for the expansion of efforts to detect fraud and to sanction auditors for professional misconduct. Designed to meet the challenges of a rapidly changing economic environment, the plan ultimately will help bolster public confidence in financial reporting.

> ***"Decisive action is needed to solidify public trust by strengthening financial reporting to meet the needs of the future."***
>
> JAKE L. NETTERVILLE, AICPA CHAIRMAN OF THE BOARD

At a widely publicized press conference we detailed extensive, innovative reforms — including the rationalization of the liability system and the creation of a new national disciplinary system for auditors of public companies and other publicly accountable entities that would more effectively deal with those responsible for faulty audits. The package also proposes that audit committees, whenever practical, be composed solely of outside directors and that a year-long waiting period be imposed on partners joining companies they audit.

The initiative also embraces the work being undertaken by the Special Committee on Financial Reporting. Charged with improving the relevance and usefulness of external reporting, the committee is conducting an extensive study into the kinds of financial data that are most valuable to users. Previous activity in this area had primarily consisted of standard setters inferring users' needs. Working to determine information needs with direct user assistance, the committee plans to issue its final report in the summer of 1994.

Specifically, the committee is researching how companies provide financial information to investors, creditors, and analysts, and is studying business and investment models used to analyze companies and determine shareholder values. In addition, it is meeting with equity investors and creditors to explore their needs as users. The committee plans a broad-based survey to confirm user information needs and determine whether the committee's recommendations are responsive to those needs.

RATIONALIZING THE LIABILITY SYSTEM

This year, the profession has seen significant advances on the liability front. An agreement was reached with the House Telecommunications and Finance Subcommittee on the proposed Financial Fraud Detection and Disclosure Act. The amended version ensures earlier disclosure of possible fraud and other illegal activities perpetrated by management. At the same time, it keeps the principal responsibility for standard setting in the private sector.

Highly visible support for the profession's liability initiatives is coming from the Private Companies Practice Executive Committee in the form of a substantial communications campaign designed to inform members and others of the burden of unfair liability.

Strengthening the profession and protecting member interests are just two of the forces driving the AICPA's new emphasis on addressing legislative issues head-on.

ENRICHING THE VALUE OF MEMBERSHIP

Underlying all our efforts to increase the profession's credibility with legislators, the business community and general public, is our commitment to serving you — our members.

As part of this commitment, the Institute and state societies are actively promoting a positive image of CPAs — through print and broadcast interviews on timely issues, such as improving financial reporting, enhancing disclosure of pension information, and the new tax package.

Gaining positive media exposure, however, is only one step in the journey to enhance the financial community's and general public's perception of the profession. The other is ensuring that the profession remains relevant.

Among the many measures being discussed by the recently formed State Society Strategic Planning Subcommittee are projects that would more clearly and accurately identify member needs, as well as help develop more efficient methods for delivering technical information and professional support to members.

The Institute is also studying the effectiveness of continuing professional education (CPE). A blue-ribbon task force on the future of CPE has been formed and is chaired by Terry Sanford, former U.S. Senator, former President of Duke University, and former Governor of North Carolina.

The Women and Family Issues Executive Committee is another example of the new committees being formed at the AICPA. The committee was the force driving the creation of the Institute's resource clearinghouse on women and family issues, which is housed in the AICPA library. The only research facility of its kind, it provides all members access to information on such innovative programs as family leave and flexibility in the workplace.

The coming months will undoubtedly bring new economic and professional challenges for all of us. To help you better meet those challenges, we have upgraded member benefits and introduced new programs.

Taking advantage of the membership's group-buying power, the Institute has expanded its member affinity programs to include five new member benefits which offer meaningful discounts on externally produced products and services.

The Institute recently entered into an agreement that enables members to enjoy measurable savings on the purchase of computers, accessories and software. Members also can receive preferred home-mortgage rates, an appraisal-fee refund, and a discount on the standard loan origination fee of a first mortgage or home equity loan. Another new agreement provides members with savings on their overnight delivery services. An additional discount is being offered on long-distance services for both business and residential usage. Members can also now obtain the new AICPA affinity credit card that features no annual fee and competitive variable interest rates. Finally, we introduced—at competitive rates—vehicle and home insurance plans.

In addition to these new benefits, we continue to bolster those programs members have long valued. Through our Member Retirement Program, AICPA member firms have amassed over $100 million in retirement assets. These funds are covered by separate prototype plans that require minimum administrative procedures by participating firms. The retirement options offered are: 401(k), money purchase, profit sharing, and Simplified Employee Pension (SEP) plans.

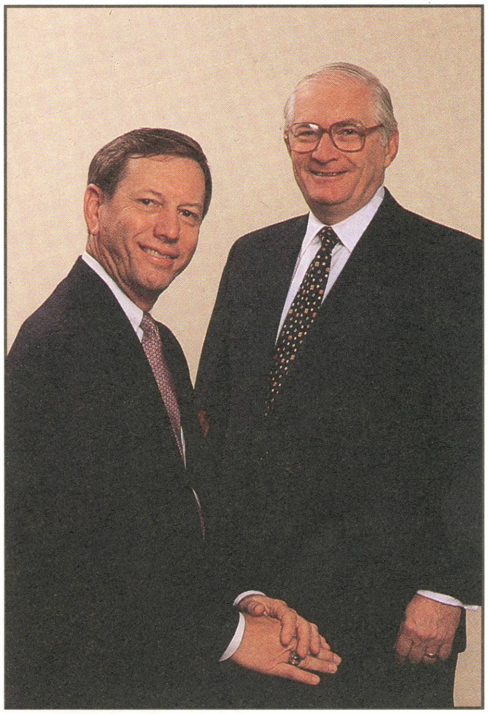
Lastly, after almost 50 years of operation, the AICPA Insurance Trust program now covers over 500,000 individuals—consisting of AICPA members, their spouses, children and employees—under both the life insurance and the long-term disability income plans. Next year, the Insurance Trust will implement a long-term care program which will provide members and their families with an important health-care option into the 21st century.

FORGING A STRONGER FUTURE

This is a critical time for our profession and for the Institute. In the next few years, events will occur that could alter our work in ways we are just beginning to foresee.

To effect change and keep our profession viable, we must maintain our commitment to progress and seize the opportunities arising from today's dynamic financial environment.

As Chairman of the Board and President of the Institute, we thank our members whose insights and energetic involvement are helping us create a new vision for the profession. Poised for change, the Institute will continue to act on behalf of its members and assure that CPAs serve the public interest by performing the highest quality professional services.

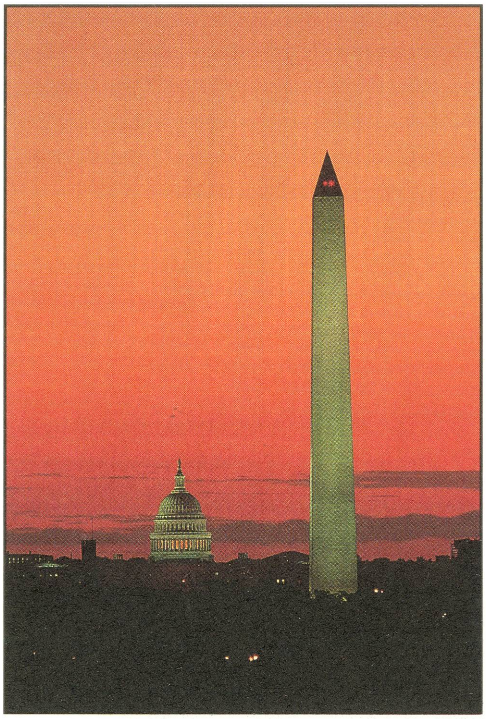


Jake L. Netterville

Jake L. Netterville,
Chairman of the Board

Philip B. Chenok

Philip B. Chenok,
President



A FORCE FOR CHANGE IN GOVERNMENT AFFAIRS

Recognizing that the time has come for the profession to be far more aggressive in government affairs, the AICPA has stepped up its legislative efforts, actively speaking out on issues that affect the future—or fundamental nature—of the accounting profession. Through our member-based Key Person Program and education efforts, the AICPA strives to ensure that new legislation will enable the profession to fulfill its public mission without imposing unfair expectations on CPAs.

Launching a Campaign on Pension Reform

As part of our new government affairs thrust, the AICPA has called on the U.S. Congress and Department of Labor to act on recommendations that would ensure greater disclosure of pension information to U.S. workers. In addition, we have recommended that the Financial Accounting Standards Board improve the disclosure of the total amount due to pension participants in financial statements and that Congress require pension plans to have full-scope audits.

The pension reform initiative includes a public campaign urging workers to "Get Smart: Learn the Three P's About Your Pension—the Promise, the Plan, and the Protection." Answers to questions associated with the Three P's would help workers find out whether their pensions are fully funded, whether the plan's investments are sound, and whether the government will pay the promised benefits if the employer cannot.

Mobilizing Grass Roots Support

In the political arena, grass roots activism speaks volumes. If changes to federal campaign and lobbying laws are enacted, they will only heighten the importance of local constituent support of the profession's legislative initiatives.

To reinforce the profession's grass roots support, the AICPA introduced a new "Key Person Training Program" designed to enhance the quality and breadth of both state and federal key person programs. More than 120 representatives from state CPA societies attended workshops where they were instructed on how to maximize the use of video-based training materials. State CPA societies will carry the training program to state and federal key persons in their states. The goal is to expose all key persons and other interested members to this training program over the next year.

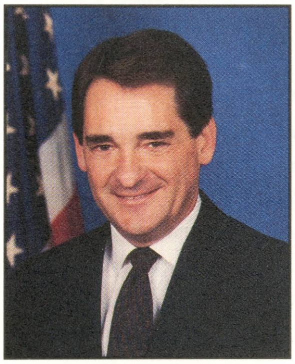
The annual AICPA Key Person Coordinators' Conference included a reception on Capitol Hill that was well attended by members of Congress and their staffs. In addition to highlighting the importance of grass roots political activity, the conference enabled attendees to visit with their congressional representatives to discuss the legislative concerns of the profession.

Forging Ahead on State Initiatives

The AICPA's efforts in state government affairs earned an award of excellence this year from the American Society of Association Executives—which lauded our on-call research capability that provides state societies with critical legislative information within 24 hours. This function has played a critical role in supporting state efforts to pass various tort reform measures, enact the 150-hour education requirement, and encourage expansion of the forms of practice available to CPAs.

Advocating Securities Litigation Reform

One of the profession's most pressing goals is enactment of legislation that could help restore fairness in the litigation process. This year Rep. Billy Tauzin (D-LA) introduced H.R. 417, which would require that judgments under Section 10b-5 against auditors (other than auditors guilty of fraud) be based upon proportionate responsibility for adjudged losses rather than on their ability to pay most or all of the entire judgment. The measure also puts potential Section 10b-5 plaintiffs and their lawyers on notice that they may have to pay the defendant's legal fees if their allegations are deemed meritless.



Rep. Billy Tauzin (D-LA)

Although the bill is limited in scope, the effort is significant because its passage would set a precedent in the effort to reform joint and several liability provisions in federal and state statutes.

The AICPA is actively seeking cosponsors for H.R. 417, which is also strongly endorsed by the Coalition to Eliminate Abusive Securities Suits (CEASS) and its 400-plus corporate, accounting, financial institution and association members. The AICPA is a participant in CEASS.

The Leading Organization for the Nation's Tax Experts

The AICPA remains a powerful force in monitoring and influencing legislation and administrative pronouncements that could impact the livelihoods and work loads of the nation's tax professionals and their clients. At the same time, the Institute is committed to a fair and simplified tax system that will better serve the public good and to becoming more outspoken about our positions.

The Tax Division has adopted a Policy Statement on Tax Law Complexity, which notes that our government can, and should, be more open with the American people. The statement further indicates that if Congress has a tax policy goal or a need to raise revenue, it should be accomplished through simpler, more direct law changes. Further, if a measure which we had supported becomes in our view needlessly complex after Congressional compromise and modification, we will not hesitate to publicly withdraw our support or oppose the measure.

In line with this approach, not only did we initiate or support many simplification provisions contained in the tax bills considered by Congress this year, but we pointed out when the sheer weight of complexity would collapse a proposal. In addition, we issued a "Tax Complexity Index" to enable lawmakers and others to measure the degree of complexity and the potential for taxpayer confusion contained in any tax proposal under consideration.

The AICPA has also helped develop a legislative proposal consisting of 26 changes to Subchapter S that would, among other things, provide a more attractive investment vehicle for venture capitalists, assist business owners in succession planning, control liability exposure, and generally simplify the rules.

Finally, both the House and the Senate Finance Committees followed our lead on estimated taxes and the amortization of intangibles when they rewrote President Clinton's tax bill. (The full Senate slightly altered the intangibles provision to raise revenue, and we told the Senate it was wrong.)

More importantly, the estimated tax provision reflects the thrust of what the AICPA has lobbied for since the 1991 estimated-tax law was passed — restoration of a measurable safe harbor for taxpayers required to make quarterly tax payments.

Monitoring Regulation of Financial Planners

In 1991 Rep. Rick Boucher (D-VA) introduced a bill that would have expanded the definition of "investment adviser" under the Investment Advisers Act of 1940 to include those using the term "financial planner" and narrowed the current exclusion available to accountants under the Act. A private right of action, permitting clients to sue the adviser, also would have been created. With active involvement of AICPA's Key Persons, years of collaboration with Rep. Boucher culminated in the House's passage of a revised bill that dropped these two objectionable provisions. The bill, as approved by the House, preserves the professional exclusion CPAs are now granted, and aims its new regulatory might at those who engage in the type of activities that most frequently lead to fraud and abuse.

The bill is currently in the Senate, where the AICPA continues to fight for its passage.

Preserving Private Sector Standards Setting

Another illustration of the Institute's success in Washington is the decision by the House Telecommunications and Finance Subcommittee to amend H.R. 574, the Financial Fraud, Detection and Disclosure Act. The revised act keeps the principal responsibility for setting auditing standards in the private sector, subject to oversight by the Securities and Exchange Commission. The amended version was approved by the House Energy and Commerce Committee in April 1993. In the Senate, an identical bill (S. 630) was introduced by Senator John Kerry (D-MA). Hearings are expected in 1993.

Working to Modify New Banking Rules

The AICPA is advising bank regulators on a precedent-setting rule that includes a legislative mandate for management and auditors' reports on internal control over financial reporting, as well as compliance with specified laws and regulations relating to safety and soundness. The final rule and related guidelines reflect many of the AICPA's recommendations, including clarification and correction of the FDIC's original proposals for access to peer review working papers.

Enhancing Federal Financial Management

The AICPA remains a key player in the effort to improve federal financial management. Working with the U.S. Office of Management and Budget and the Federal Inspectors General, we are helping to develop accounting and auditing guidance for the preparation and audit of required financial statements. Additionally, the AICPA participated in a two-day conference in Washington, D.C., sponsored by the National Performance Review (NPR) — President Clinton's initiative to "reinvent the federal government."

THE SOURCE FOR PROFESSIONAL OVERSIGHT AND GUIDANCE

The AICPA is the principal source of professional guidance, support and oversight for the accounting profession. In the past year, our efforts in the technical area have focused on improving the quality and reliability of financial reporting, enhancing relevancy in accounting and auditing, and clarifying concepts essential to CPA practices of all types.

At the same time, we have worked to strengthen and clarify the profession's commitment to professional ethics and quality service.

Leadership in Professional Ethics

AICPA members have adopted and agreed to abide by a rigorous Code of Professional Conduct requiring competence, independence, objectivity and integrity, and compliance with professional standards. The AICPA's Professional Ethics Executive Committee is charged with interpreting and enforcing that code and providing information to members about the ethics of the accounting profession.

During the past year, the committee worked with other AICPA committees representing members in industry, government and academia to provide guidance regarding the professional services they perform. The committee initiated a series of meetings with staff of the SEC with the objective of harmonizing differences between SEC and AICPA independence rules. Ethics pronouncements were issued to assist members in understanding the circumstances in which loans from financial institution clients are prohibited.

The Ethics Division maintains a cooperative program with fourteen agencies of the federal government for referral of engagements in which substandard technical performance is alleged. Other referrals are made by members of the public, clients and members. During the period of this report, 370 ethics investigations were completed, of which 282 resulted in disciplinary or other corrective action taken by the division. Corrective action usually requires attendance at CPE courses followed by a review of a subsequent work product. Disciplinary action involves suspension or expulsion of a member by the Trial Board Division.

Progress in Quality

Since the inception of the quality review program, the Quality Review Executive Committee has established and carried out an aggressive oversight program to ensure that reviews are being carried out uniformly across the country. AICPA members have been successful in implementing the quality review program. Quality review is now a fact of life and it has changed the way CPAs practice.

More than 21,000 quality reviews have been performed to date, including 8,500 off-site quality reviews of firms that perform compilations or reviews but no audits. While 83 percent of firms having on-site reviews received unqualified reports, 17 percent of on-site reviews resulted in a qualified or adverse reports due primarily to deficiencies related to the firms' policies and procedures for supervision.

The success of the quality review program is reflected in the statistics on subsequent reviews: 95 percent of firms having subsequent on-site quality reviews received unqualified reports, versus 83 percent for initial on-site quality reviews. The same was true for off-site reviews: 92 percent of the subsequent reviews were unqualified, while only 79 percent of the initial reviews were unqualified.

The Quality Review Executive Committee has been working diligently during the last year to determine what revisions should be made in the quality review standards to enhance the effectiveness of reviews. These revisions were exposed for comment in the spring and relate primarily to the off-site quality review process.

Auditing and Accounting Standards and Support

This past year was notable for the number of ambitious projects undertaken in the auditing and accounting arenas. New programs were launched to address critical issues, from the future of the audit/assurance function to the impact of environmental matters on the profession.

Held Audit/Assurance Conference

To address the challenges that the changing environment poses for the audit/assurance function, the Auditing Standards Division held an Audit/Assurance Conference. Auditors, information preparers and users, regulators and academics met at the conference to identify types of information and processes for which the audit/assurance function could enhance value.

The results of the conference will provide ideas and direction for the Auditing Standards Board's (ASB's) consideration of the audit/assurance function in the year 2000 and beyond.

Provided Guidance on Internal Control

Another significant ASB activity was the issuance of a new standard to provide guidance on reporting on an entity's internal control structure over financial reporting. Interest in the issue of internal controls has been heightened by recent political and regulatory developments. The FDIC Improvement Act of 1991, for example, requires management of federally insured depository institutions to report on internal financial control effectiveness and requires the auditor to attest to management's report.

Exposed Statement on Risks and Uncertainties

During the past year, the Accounting Standards Division issued several statements of position and exposure drafts designed to strengthen financial reporting. Of note is an exposure draft of a proposed statement of position that aims to improve the disclosures of the risks and uncertainties that enterprises face in today's volatile business climate. The proposal addresses matters such as an entity's vulnerability due to concentrations and its financial flexibility.

Addressed Environmental Issues

The Accounting Standards and Auditing Standards Divisions jointly sponsored an Environmental Roundtable to address specific accounting and auditing issues related to environmental matters. The Roundtable brought together standard-setters, industry representatives, and members from various organizations, such as the SEC, the American Bar Association, and the International Federation of Accountants.

After the Roundtable, a task force of the Accounting Standards Executive Committee began developing guidance on applying generally accepted accounting principles to environmental matters. In addition, the ASB created a task force to monitor worldwide developments in auditing environmental matters.

Provided Guidance for Accounting and Review Services

The Accounting and Review Services Committee issued Statement on Standards for Accounting and Review Services (SSARS) No. 7, *Omnibus Statement on Standards for Accounting and Review Services—1992*, which amends various sections of the SSARS. A major provision of SSARS No. 7 that changes practice is an amendment that makes obtaining a representation letter a required rather than an optional procedure in a review engagement.

In addition, the *Compilation and Review Alert* was issued to provide accountants with an overview of recent practice, regulatory, and professional developments that may affect the compilations and reviews that they perform.

Updated Audit and Accounting Guides

During the year, we issued two fully revised guides in our Audit and Accounting Guides series—*Audits of Credit Unions* and *Guide for Prospective Financial Statements*—and updated the other 24 guides in the series through the Audit and Accounting Guide Loose-leaf Subscription Service. In addition, 17 industry Audit Risk Alerts were issued during the year to keep auditors informed of economic, regulatory and professional developments that may affect the audits they perform each year.

Provided the Best in Technical Support

For many years, members have relied on the Technical Information Division to give them practical guidance in applying the complex requirements of accounting and auditing literature to their engagements. The division offers support to members through a toll-free telephone hot line service and numerous non-authoritative publications designed to help practitioners comply with professional standards.

The Technical Information Division staff wrote and edited over 30 publications, including the Integrated Practice System (IPS) Manuals. Eight titles currently comprise the ever-growing IPS series:

- *Comprehensive Engagement Manual*
- *Small Business Audit Manual*
- *Compilation and Review Manual*
- *Not-for-Profit Organizations Audit Manual*
- *Bank Audit Manual*
- *Credit Union Audit Manual*

- *Construction Contractors' Audit Manual*
- *Quality Control Manual for CPA Firms*

These manuals, which are developed and updated annually by authors with extensive experience, provide a practical approach to performing quality engagements in relevant specialized industries and areas of practice.

Also in 1992–93, AICPA staff answered over 50,000 calls on accounting and auditing topics for all types of engagements and specialized industries. Many hot line questions and answers are published in the AICPA *Technical Practice Aids*.

SERVING THE NEEDS OF A DIVERSE MEMBERSHIP

The accounting profession continues to evolve, with the nature of CPAs' professional responsibilities and services changing and expanding at an unprecedented pace. In this environment, staying attuned to our members' diverse needs and concerns is more critical than ever before.

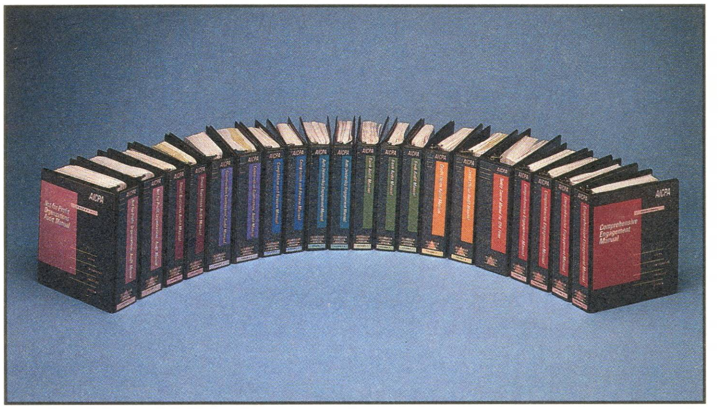
Meeting the challenges of professional diversity has prompted us to launch new programs and accelerate our efforts to support CPAs in every field in which they operate.

Tax Division

In addition to its extensive legislative and regulatory activities (described on pages 5–6), the Tax Division developed a number of helpful practice guides and expanded its program of negotiated discounts on CD-ROM tax research and return preparation products from outside vendors.

The award-winning *Disaster Area Practice Guide* provides guidance to CPAs in serving clients in areas that are impacted by hurricanes, earthquakes, floods, or other natural disasters. This was distributed to state societies as well as to Tax Division members.

This year, the division also expanded *Tax Practice Guides and Checklists* to include over 300 pages of detailed checklists for return preparation and reviews for all major taxable and reporting entities. Other practice guides



have been published to help members deal with specific current issues.

Division for CPA Firms

The Division for CPA Firms is an organization of 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 membership consists of more than 6,800 firms representing 138,000 professionals, including more than 79,000 CPAs.

SEC Practice Section

The Public Oversight Board (POB), the independent body that monitors and evaluates the activities of the SECPS, issued a special report in March that offers 25 separate recommendations to improve the financial reporting process and the environment in which public accountants practice. These recommendations were endorsed by the AICPA's Board of Directors.

The SECPS Executive Committee responded quickly and favorably to the POB's recommendations. It has begun to modify and expand its self-regulatory programs and is developing a mechanism to respond to emerging professional practice issues in a timely manner.

In addition, the SECPS Peer Review Committee has embarked upon a thorough reexamination of its programs. This "visioning project" is an effort to capitalize on the 15 years of experience developed by the program.

Private Companies Practice Section

In the past year, PCPS launched a comprehensive project to alert the public and the profession to the extent of the liability crisis, especially as it affects local firms. The PCPS developed a paper analyzing the current crisis and recommending defensive strategies for smaller firms. In addition, a national advertising campaign supporting liability reform efforts was launched.

On another front, the PCPS Technical Issues Committee is sponsoring a joint project with Robert Morris Associates, the association of bank lending officers, to formalize a loan submission package for small businesses. The goal of this effort is to develop a common ground on the presentation of financial information for small business loan applications.

MAP Committee

The Management of an Accounting Practice (MAP) Committee stepped up its efforts to provide guidance to firms on management issues and initiated actions that have an impact on firms' management decisions.

The committee's recent book, *Managing the Malpractice Maze*, was widely excerpted and favorably reviewed in major accounting, legal and business periodicals as a significant practice aid. The committee continued its guidance by issuing five new publications to assist in firm management.

The committee also developed a position paper, approved by the AICPA Board, that calls for universal CPE credit for management training.

Two more programs were introduced: a networking program, under whose auspices firms of like size will join together in groups of no more than 25 participants to discuss firm management issues and an Executive Skills Program developed for CPA firms by the University of Texas.

Management Consulting Services

The Management Consulting Services (MCS) Division assists CPAs in applying management-related knowledge, skills and techniques to all types of entities.

To address the rapid changes taking place in consulting practice and respond to future challenges, the MCS Executive Committee initiated a comprehensive strategic planning process, including development of a new mission statement and objectives. Plans to implement the appropriate strategies will be established. This strategic plan will serve as the cornerstone for all future programs, publications and activities.

Continuing its efforts to provide guidance on timely topics, the MCS Division published several practice aids and special reports covering a broad range of topics, including conflicts of interest and standards in litigation services, conducting a valuation of a closely held business, developing an MCS engagement control program and creating policies and procedures for spreadsheet applications.

The MCS membership section also continued to publish its quarterly newsletter, *The CPA Management Consultant*, which provides timely information on consulting service opportunities and legislative matters that impact CPA consultants. The newsletter continually invites feedback from members on issues of concern to them.

Personal Financial Planning

The Personal Financial Planning (PFP) Division is dedicated to providing publications, resources, and services to improve CPAs' expertise in understanding and using new personal financial planning strategies.

During 1992–93, the PFP Executive Committee issued its first Statement on Responsibilities in Personal Financial Planning Practice titled *Basic PFP Engagement Functions and Responsibilities.* In addition, the division issued two exposure drafts: *Working With Other Advisers* and *Implementation Engagement Functions and Responsibilities.*

To help CPAs who provide personal financial planning services stay up-to-date technically, the division publishes an award-winning bimonthly newsletter titled *The Planner* and significant updates to the *PFP Manual*—with practice aids on cash flow planning, retirement planning, professional standards, and charitable giving. A new stand-alone practice aid, *Guide to Planning for Closely Held Business Owners,* was published and other stand-alone practice aids on *Education Funding* and *Working with Clients in Divorce Situations* are under development.

During the year, the division also completed the development of a new AICPA software program—*PFP Partner*—designed to automate many of the calculations required in a PFP engagement.

The division also made great strides in educating the public about the role of CPAs as personal financial planners by arranging for spokespersons to be interviewed by national and local media on PFP topics. Successful placements included *The New York Times, The Wall Street Journal,* and *Money* magazine.

Information Technology

The end of this fiscal year marked the second anniversary of the AICPA Information Technology Division. Since its inception, the division has seen a steady increase in membership and visibility within the Institute.

In addition to the newsletter *InfoTech Update,* section members received "Technology Alerts" on telephone fraud, viruses, tape back-ups, and DOS 6.0. The section also arranged for significant discounts on selected hardware and software and provided demo disks of several software products.

The section will continue to publish practice aids, technology bulletins, research reports, and technology alerts to aid members in implementing and understanding various technologies. Moreover, the section plans to continue researching new technologies and the impact these technologies may have on the accounting profession.

Management Accounting

The Management Accounting Executive Committee has initiated a project to provide critical information for organizations seeking to improve the productivity of their accounting and finance functions. The project will capitalize on the member resources of the AICPA to significantly expand an existing data base that contains extensive information concerning key management accounting practices. The information is used to develop benchmarks and identify practices associated with the best-run companies participating in the project. Individual companies participating in the study are able to obtain a confidential performance analysis comparing aspects of their company's accounting functions to benchmarks developed from the data base. In turn, the AICPA will communicate the "best practices" identified during the benchmarking study to the broader financial community.

The scope of the project includes benchmarking three major areas: Core/Transaction

SOURCES AND OCCUPATIONS OF AICPA MEMBERSHIP

	1981	1983	1985	1987	1989	1991	1993
Total AICPA Membership	173,900	201,764	231,333	254,910	286,358	301,410	314,427
Public Accounting	53.5%	53.0%	51.0%	47.6%	45.8%	43.2%	42.2%
Business & Industry	36.1%	36.9%	38.8%	39.5%	39.9%	40.7%	40.3%
Education	2.8%	2.7%	2.7%	2.8%	2.7%	2.8%	2.3%
Government	3.3%	3.3%	3.3%	3.4%	3.7%	3.9%	4.3%
Retired & Miscellaneous	4.3%	4.1%	4.2%	6.7%	7.9%	9.4%	10.9%
Membership in Public Practice	93,082	106,870	117,850	121,349	131,014	130,078	132,821
Firms with one member	21.8%	22.6%	23.9%	25.6%	23.8%	24.1%	23.2%
Firms with 2 to 9 members	34.5%	34.0%	33.7%	34.0%	33.8%	35.2%	35.8%
Firms with 10 or more members, except the	14.2%	15.0%	15.1%	15.5%	17.3%	18.8%	20.0%
25 largest firms	29.5%	28.4%	27.3%	24.9%	25.1%	21.9%	21.0%

Processes; Control and Risk Management Processes; and Decision Support Processes.

Members in Industry

The Members in Industry Executive Committee continued its hard work to meet the challenges that face the growing segment of our membership employed in business and industry. Recognizing the pride that all members have in being part of a profession that aspires to the highest standards of excellence and ethical conduct, the committee strengthened its links with other Institute divisions and the state CPA societies.

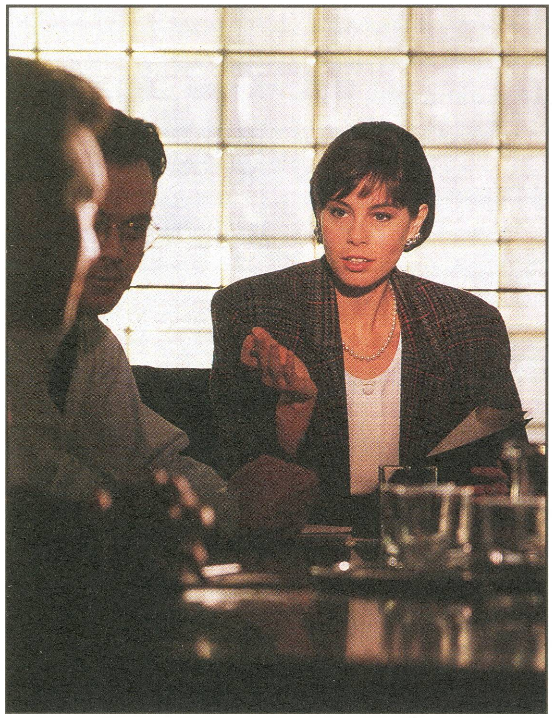
In an effort to take a more active role in the evaluation and establishment of professional standards, the committee established a Professional Issues Subcommittee this past year. This group is monitoring the processes and the products of the various rule-making bodies within the profession and comments as is appropriate from the perspective of the CPA financial manager. The committee has also forged a relationship with the AICPA Washington, D.C. office to understand the legislative and regulatory issues affecting industry members.

In the area of professional ethics, a special task force of the committee submitted a detailed report of recommendations to clarify and amplify the application of the AICPA Code of Conduct to members in industry. Among the first products of that report were three draft interpretations of the Code.

The committee continues to push for the development of CPE programs that are relevant to the variety of functions and specific industries in which industry members are employed. To provide more resources and industry member input in this area, a CPE Liaison Subcommittee will begin operation in 1993–94.

To improve our communication with industry CPAs, an Editorial Advisory Board of prominent members was established for *The Financial Managers Report* (FMR). A quarterly insert, mailed to all industry members with *The CPA Letter*, FMR combines news on professional issues with practical advice on various aspects of the jobs of CPA financial managers.

In communicating with employers, the goal is to maintain the CPA designation as the premier credential for financial management positions in business and industry. A new committee initiative aimed toward that end is the establishment of an Industry CPA of the Year Award. Nominations have been solicited from the state CPA societies and from employers. The inaugural award will be presented at a National Industry Conference in 1994.



Women and Family Issues

Established in 1992, the Women and Family Issues Executive Committee has launched several projects designed to assist the profession in achieving broad representation of women in all leadership positions and helping both male and female accounting professionals balance their work and family lives.

The *Resource Clearinghouse on Women and Family Issues in the Accounting Workplace*, housed in the AICPA's Library, enables members to access current literature and sample policies on such topics as family leave, alternative work schedules, and mentoring. A survey of public accounting firms conducted in the summer of 1993 addressed firms' work and family initiatives and senior managements' outlook on women's upward mobility. The survey will provide baseline statistics to help gauge women's progress.

Through the new State Society Liaison Network, the committee hopes to increase dialogue between committee members and their assigned society contacts, enhancing both organizations' initiatives. In addition, the committee has joined forces with the AICPA's Washington, D.C., office to monitor legislation affecting women and family issues in the workplace.

PROVIDING RESOURCES TO MEET MEMBER NEEDS

Providing timely, practical tools is a commitment of which the AICPA stands proud. This year, we focused on developing and expanding resources to help improve members' day-to-day efficiency and better meet their information requirements.

Accelerated Software Development

The past year has seen a significant increase in AICPA software activities. The software division has focused on understanding members' needs and on developing ways in which to meet those needs more effectively.

One clear sign of this commitment is the introduction of several new products including:

- *ATB Write-Up Conversion*, which allows members to import data from general ledger packages into ATB Write-Up and export data to popular tax-preparation programs.
- The *APG Banking Compliance Checklists*, which supplies checklists to ensure compliance with the latest banking regulations, such as the FDIC Improvement Act. These checklists are supplied on diskettes that work with the AICPA's Audit Program Generator software.
- *CD-NAARS*, a CD-ROM disk which contains annual reports of over 4,000 companies for 1991 and 1992.

In addition, there has been growing demand for the Accountant's Trial Balance program and its related Financial Statements, Consolidations, and Conversions modules. To respond to this growth, the Institute has arranged for expansion of a Software Support Line and introduced a dedicated "AICPA Software Information Hot Line." Users of AICPA software can also obtain in-depth training at the Institute's annual Software User's Conference.

AICPA members have consistently "voted with their dollars" and elected AICPA software as number one in the trial balance, report preparation, and audit program generation software.

Tailored Publications to Meet Member Needs

The *Journal of Accountancy*, with the advice and assistance of a group of members, created a publishing mission statement this year that defines its obligations and responsibilities to its readers and to the Institute.

To forge closer ties with readers, the *Journal* set up an interactive communications network between the editorial staff, members and other readers. The comprehensive program includes several types of readership polls, surveys at AICPA conferences, weekly editor-to-reader telephone talks, member roundtables, and an expanded editorial board consisting of 55 CPAs.

At the same time, the *Journal* continues to introduce new editorial material as needed to serve both members and the Institute. Examples include:

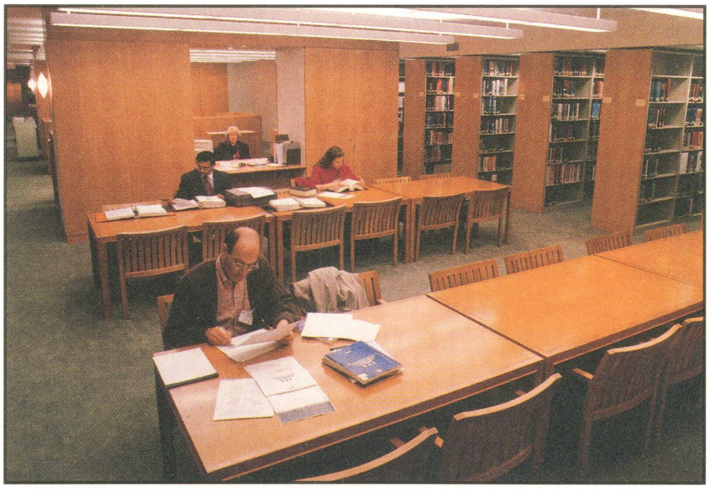
- A special section that highlights AICPA member services and products, including a telephone directory of member services and affinity programs.
- New departments covering technical questions and answers, career information, liability issues, and business travel.

The Institute also provides timely and full coverage of emerging issues in its various client newsletters and brochures.

During the past year, *The CPA Letter* continued to implement changes suggested by members who responded to the 1991 readership survey. Topics not considered useful were eliminated or reduced and coverage of highly rated topics was increased. A new readership survey will be conducted in the fall. Also in response to member needs, *The CPA Letter* featured its first index of selected articles. The index included many of the articles to which members might want to refer in the future.

To help members in their services to clients, the Institute introduced the *CPA Health Care Client Letter*, a new quarterly newsletter for clients of members. We also continue to issue the *CPA Client Bulletin* and *CPA Client Tax Letter*, which together reach a combined total of 900,000 clients of members. In addition, we offer a number of brochures on special subjects to educate members and their clients on important business and technical matters.

Finally, as part of the profession's bolder and more aggressive stance in tackling the issues confronting the profession in our nation's capital, the *Capitol Account* has assumed a new look and focus. The monthly newsletter for the Institute's Key Persons and other interested parties now offers an insider's analysis of the workings of Capitol Hill. No longer just a recounting of events, it provides readers with the how and why of public policy-making in Washington.



The AICPA Library's new headquarters

Expanding the AICPA's Library

In its 75th year of service in providing members with access to professional information, the AICPA Library relocated to greatly expanded quarters on the concourse level of the Institute's New York location. This move provides members with a far more modern, convenient research facility.

To enhance our information resources, the AICPA entered into an arrangement to sell *Accountants' Index* and *Accountants Database (1974–91)*, products of the Library Service Division, to UMI/Data Courier. As a result, UMI has incorporated the *Accountants Database* into their on-line file, *Accounting and Tax Database*, File 485 on the Dialog system. A CD-ROM product is forthcoming.

The library provides members access to these and many other electronic files and also maintains its own internal bibliographic data bases to enable its staff of 16 to provide ready answers for the 12,000 visitors and 34,000 members who call during the year.

ENHANCING ACADEMIC EXCELLENCE AND PROFESSIONAL DEVELOPMENT

This year, the Board of Directors unanimously endorsed a recruiting campaign designed to attract highly motivated students to consider careers in accounting. The campaign — under the banner "Accounting: Don't Just Learn a Business. Learn the Business World" — was launched this fall with a mailing to selected high school and college educators and academic advisers. The AICPA is also working closely with the state CPA societies and accounting firms to ensure that a consistent image and message is delivered to students.

A new interactive career guide featuring the diversity that a career in accounting offers is the cornerstone of the recruiting campaign, which also includes an MTV-style video and other support materials. The recruitment program is based on extensive market research into how high school and college students make career decisions and what their perceptions are of the accounting profession. A comprehensive distribution plan has been implemented that has at its core a central fulfillment system for educators, and is supplemented by programs involving accounting firms and the state CPA societies.

This message and theme of diversity is also demonstrated in a brochure specifically designed to target minority students. The brochure profiles seven successful minority CPAs and what attracted them to accounting.

Forging the Future of Accounting Education

Well over 50 percent of the states have adopted the 150-semester hour education requirement to sit for the CPA exam and become certified. Thirty states now have laws that will take effect by the year 2000, when the Institute's membership requirement becomes effective. The 30 states are Alabama, Alaska, Arkansas, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Mississippi, Missouri, Montana, Nebraska, Nevada, North Dakota, Ohio, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, West Virginia and Wyoming.

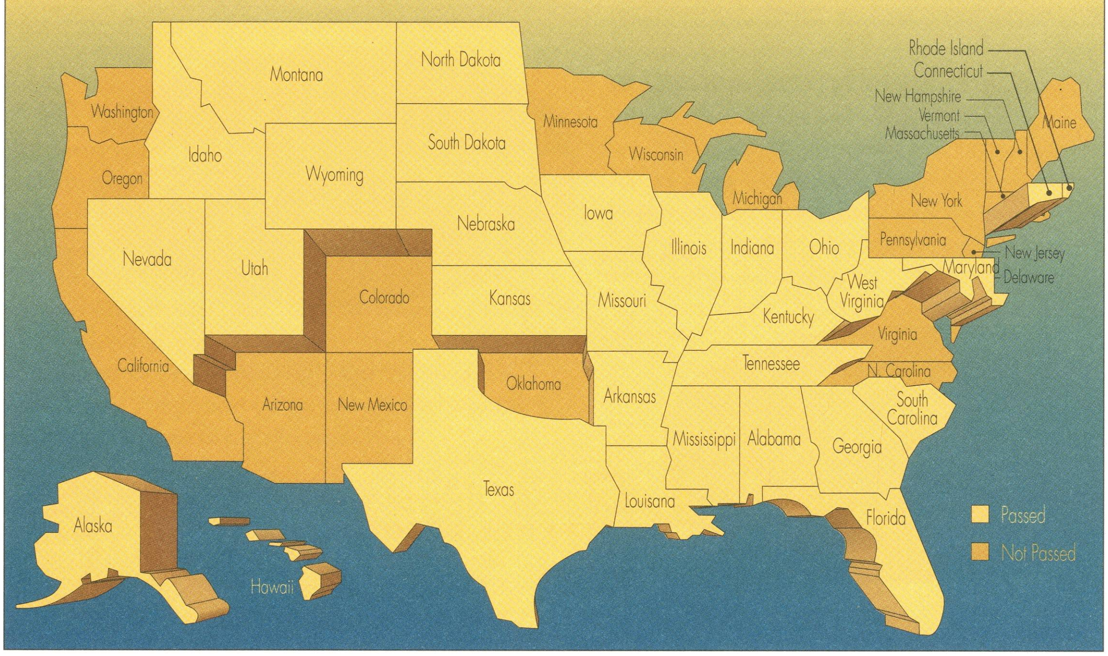
Enhancing the Quality of CPE

The quality of AICPA seminar materials increased for the fifth year in a row, as evidenced by member ratings. Seminar participants provided an average "overall satisfaction" rating of 4.15 out of a possible 5.00 this year. This improvement follows extensive efforts to improve overall course quality. We also restructured CPE resources and implemented an aggressive cost-containment program. The result has been more tightly focused programs in those areas of greatest member demand, a reduction in staff, and cuts in development, marketing and production costs.

A Special Committee on the Future of CPE has been appointed to study the development, delivery and administration of CPE among the AICPA, state CPA societies, and others, and to recommend changes if necessary. Former U.S. Senator Terry Sanford chairs this committee, which has plans to issue a report in the fall of 1993.

Exciting times lie ahead for CPE, particularly regarding the use of technology. Advances in video delivery and the use of computers in education offer promise and opportunity for substantial change.

Jurisdictions that have passed the 150-hour education requirement



Revenue exceeded expenses by $2.7 million in the current year, which was $2.0 million better than the prior year's operating results before giving effect last year to a onetime charge of $6.3 million for relocation expenses. This favorable result, which brought the fund balances to $13.1 million, from $10.5 million last year was $700 thousand better than the budget for 1992–93 of $2.0 million.

Total revenue increased to $117.1 million or $6.7 million more than the prior year. Expenses were $114.4 million or $4.7 million higher than the prior year, generally as a result of inflation. Cash flows from operations were $17.6 million or $15.1 million more than last year.

Dues revenue of $42.9 million was $7.8 million higher than last year, primarily as a result of a 20% overall dues increase authorized last year. Economic pressures continued to depress revenue from other sources. In particular, revenue from continuing professional education has declined over the past two years from a high of $25.0 million to $21.9 million in the current year. This condition is caused by increased competition and the availability of lower cost alternatives in the marketplace. A number of remedial steps are being taken to respond to this situation from both a marketing and an operational perspective.

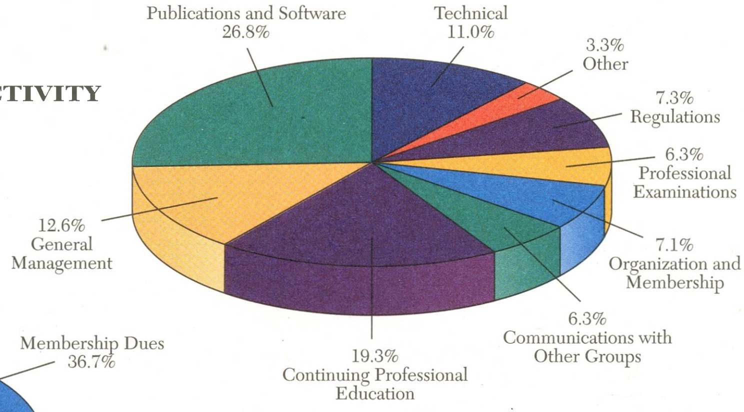
Salaries and personnel costs were 36.4% of the Institute's operating expenses in 1992–93. At July 31, 1993, the Institute staff included 729 positions, or 7% fewer than the peak staffing level of 785 during fiscal 1990–91. Cost savings from staff reductions were offset, however, by normal merit increases (about 4.5%) and the increasing costs of health programs and unemployment insurance.

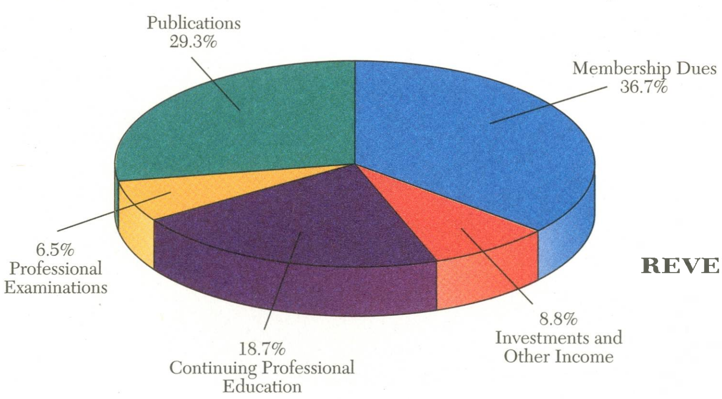
Occupancy costs increased by $2.0 million as a result of securing additional space when the Institute moved a significant portion of its operations from Manhattan to Jersey City, New Jersey.

Total cash and marketable securities at July 31, 1993 was $31.6 million, an increase of $13.7 million over the prior year. During this same time period, long-term debt increased by $5.7 million.

To assure that the Institute remains financially sound in the future, the Board of Directors has established as a goal the building up of the fund balances over a period of years to an amount equal to 20–25% of annual revenue. To achieve that goal, the Board plans to budget for an annual excess of revenue over expenses of $2–3 million each year.

EXPENSE BY ACTIVITY





REVENUE BY SOURCE

MANAGEMENT'S RESPONSIBILITIES FOR FINANCIAL STATEMENTS AND THE INTERNAL CONTROL SYSTEM

FINANCIAL STATEMENTS

The following financial statements of the American Institute of Certified Public Accountants (Institute), 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. Financial information elsewhere in this annual report is consistent with that in the financial statements.

The Board of Directors, operating through its Audit Committee, which is composed entirely of directors who are not officers or employees of the Institute, provides oversight for the financial reporting process. The Audit Committee annually recommends the appointment of an independent public accountant and submits its recommendation to the Board of Directors, and then to the Council, for approval. The Audit Committee meets with 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 separately with the Audit Committee, without management representatives present, to discuss the results of their audits, the adequacy of the internal control system and the quality of financial reporting. These meetings are designed to facilitate private communications between the Audit Committee and both the internal auditor and the independent public accountant.

The financial statements of the above entities have been audited by an independent public accounting firm, J.H. Cohn & Company, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Council, the Board of Directors and committees of the Board. The Institute believes that all representations made to the independent public accountants during their audits were valid and appropriate. The report of the independent public accountant follows this statement.

INTERNAL CONTROL SYSTEM

The Institute maintains an internal control system over financial reporting, which is designed to provide reasonable assurance to the Institute's management and Board of Directors regarding the preparation of reliable financial statements. The system includes a documented organizational structure, the division of responsibility and established policies and procedures, including a code of conduct, to foster a strong ethical climate.

Established policies are communicated throughout the Institute and enhanced through the careful selection, training and development of its staff. Internal auditors monitor the operation of the internal control system and report findings and recommendations to management and the Board of Directors. Corrective actions are taken, as required, to address control deficiencies and implement improvements in the system.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even the most effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of an internal control system can change with circumstances.

The Institute has assessed its internal control system over financial reporting in relation to criteria for effective internal control over financial reporting described in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Institute believes that, as of July 31, 1993, its system of internal control over financial reporting met those criteria.

J.H. Cohn & Company was also engaged to report separately on the Institute's assessment of its internal control system over financial reporting. The report of the independent public accountant follows this statement.

Philip B. Chenok
President

Donald L. Adams
Vice President
Finance and Administration (CFO)

J. H. COHN & COMPANY
400 PARK AVENUE
NEW YORK, NY 10022-4406
(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, 1993 and 1992, 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, 1993 and 1992 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, 1993 and 1992, 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
September 2, 1993

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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 examined management's assertion that the American Institute of Certified Public Accountants maintained an effective internal control system over financial reporting as of July 31, 1993 included in the accompanying statement of management's responsibilities for financial statements and the internal control system.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control system over financial reporting, testing and evaluating the design and operating effectiveness of the internal control system, and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control system, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control system over financial reporting to future periods are subject to the risk that the internal control system may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that the American Institute of Certified Public Accountants maintained an effective internal control system over financial reporting as of July 31, 1993 is fairly stated, in all material respects, based upon criteria established in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

J. H. Cohn & Company

New York, New York
September 2, 1993

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

BALANCE SHEET JULY 31

	1993	1992
	($000)	
Assets:		
Cash	$ 119	$ 269
Marketable securities	31,527	17,716
Accounts receivable (less an allowance for doubtful accounts: 1993, $447,000; 1992, $421,000)	10,828	11,462
Inventories	3,797	3,941
Deferred costs and prepaid expenses	5,136	6,475
Furniture, equipment, and leasehold improvements, net	16,847	7,483
	68,254	47,346
Funds held for Division for CPA Firms	3,234	3,170
	$71,488	$50,516
Liabilities and Fund Balances:		
Liabilities and deferred revenue:		
Accounts payable and other liabilities	$11,473	$10,695
Advance dues	21,942	13,267
Unearned revenue from subscriptions and other sources	8,505	7,643
Deferred rent	6,687	4,483
Long-term debt	6,500	800
	55,107	36,888
Funds held for Division for CPA Firms	3,234	3,170
General fund balances	13,147	10,458
	$71,488	$50,516

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

STATEMENT OF CHANGES IN FUND BALANCES YEAR ENDED JULY 31

	1993	1992
	($000)	
General Fund:		
Fund balances, beginning of year	$10,458	$16,071
Excess (deficiency) of revenue over expenses	2,689	(5,613)
Fund balances, end of year	$13,147	$10,458

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

	1993	1992
	($000)	
Dues	**$ 42,936**	$ 35,176
Publications and software	**34,305**	34,222
Continuing professional education	**21,946**	23,301
Professional examinations	**7,652**	7,661
Investment and sundry income	**7,354**	6,799
Conferences	**2,925**	3,297
	117,118	110,456
Expenses (see also Summary of Expenses by Activity):		
Salaries	**33,990**	33,821
Cost of sales	**22,253**	22,961
Occupancy	**13,631**	11,674
Personnel costs	**7,699**	6,938
Postage and shipping	**6,357**	6,747
Meetings and travel	**5,623**	4,812
Printing and paper	**4,277**	4,612
Professional services	**3,282**	3,409
Promotions and advertising	**3,308**	3,087
Commercial services	**2,642**	2,096
Telephone	**1,592**	1,659
Equipment rental and maintenance	**1,403**	1,430
Software costs—in-house applications	**1,264**	1,180
Support for professional organizations	**1,647**	1,129
Office and computer supplies	**1,190**	1,053
Mailing services	**688**	687
Fees	**673**	623
Income taxes	**858**	195
Interest	**259**	5
Other	**1,793**	1,646
	114,429	109,764
Relocation	**—**	6,305
	114,429	116,069
Excess (deficiency) of revenue over expenses	**$ 2,689**	$ (5,613)

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

	1993	1992
	($000)	
Professional examinations	$ 7,180	$ 6,803
Publications and software:		
Produced for sale	26,518	25,106
Distributed to members and others	4,116	4,578
Continuing professional education	22,042	22,545
Conferences	2,728	2,511
Technical:		
Accounting and review services	43	82
Accounting standards	1,332	1,203
Auditing standards	1,687	1,567
Audit and accounting guides	572	506
Federal taxation	2,993	3,075
Personal financial planning	775	872
Management consulting services	781	787
Information technology	287	261
International practice	497	663
Technical assistance to members	1,195	1,147
Library	1,476	1,501
NAARS program	324	484
Financial Accounting Foundation support	617	603
Regulation:		
Ethics and trial board	1,785	1,839
State legislation	605	509
Division for CPA Firms	1,077	960
Quality review programs	4,895	5,007
Organization and membership:		
Board, council and annual meetings	1,536	2,035
Nominations and committee appointments	191	195
Communications with members	330	473
Membership services	4,347	3,486
Special organizational studies	1,679	1,599
Communications with other groups:		
Public relations	1,493	1,137
State societies	374	172
Universities	1,175	1,065
Federal government	4,219	3,850
Assistance programs for minority students	1,171	576
General management	14,389	12,567
	114,429	109,764
Relocation	–	6,305
	$114,429	$116,069

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

Increase (decrease) in cash:

	1993	1992
	($000)	
Cash Flows from Operating Activities:		
Cash received from members and customers	$ 124,663	$ 106,502
Interest and dividends received	1,124	1,187
Cash paid to suppliers and employees	(106,555)	(105,300)
Interest paid	(241)	—
Income taxes paid	(1,580)	(147)
Income taxes refunded	216	258
Net cash provided by operating activities	17,627	2,500
Cash Flows from Investing Activities:		
Payments for purchase of equipment	(11,016)	(3,760)
Payments for purchase of marketable securities	(72,297)	(27,823)
Proceeds from sale of marketable securities	59,836	28,355
Net cash used in investing activities	(23,477)	(3,228)
Cash Flows from Financing Activities:		
Proceeds of long-term debt	6,200	800
Payments of long-term debt	(500)	—
Net cash provided by financing activities	5,700	800
Net increase (decrease) in cash	(150)	72
Cash, beginning of year	269	197
Cash, end of year	$ 119	$ 269

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

	1993	1992
Excess (deficiency) of revenue over expenses	$ 2,689	$ (5,613)
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided by operating activities:		
Depreciation and amortization	3,486	3,829
Gain on sale of marketable securities	(1,350)	(991)
Amortization of subscription revenue	(230)	(213)
Provision for:		
Losses on accounts receivable	106	71
Obsolete inventories	546	510
Deferred rent	4,144	3,950
Pension expense	469	321
Writedown of furniture and leasehold improvements related to relocation	—	2,955
(Increase) decrease in:		
Accounts receivable	528	(1,016)
Inventories	(402)	(341)
Deferred costs and prepaid expenses	75	(256)
Increase (decrease) in:		
Accounts payable and other liabilities	309	56
Advance dues	8,675	(1,024)
Unearned revenue from subscriptions and other sources	1,092	262
Deferred rent	(2,510)	—
Total adjustments	14,938	8,113
Net cash provided by operating activities	$ 17,627	$ 2,500

Supplemental schedule of non-cash investing activities:
During the year ended July 31, 1993, the Institute acquired $570,000 of leasehold improvements in lieu of receiving rent concession payments from one of its landlords.

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 1993	1992	AICPA Benevolent Fund, Inc. 1993	1992	Accounting Research Association, Inc. 1993	1992
	($000)		($000)		($000)	
Assets:						
Cash	$ 5	$ 8	$ 5	$ 7	$ 3	$ 2
Marketable securities, at lower of cost or market*	1,817	1,986	1,074	1,024	1,173	1,198
Notes and mortgages receivable (net of allowance for doubtful collections: 1993, $61,000; 1992, $48,000)	—	—	447	475	—	—
Dues/other receivables	22	88	11	17	1,264	999
Due from Institute	723	—	178	—	4	3
	$2,567	$2,082	$1,715	$1,523	$2,444	$2,202
Liabilities and Fund Balances:						
Liabilities and deferred revenue:						
Accounts payable	$ 56	$ 12	$ —	$ 4	$ 330	$ 288
Advance contributions/dues	123	—	136	—	1,385	1,300
Scholarships payable	478	357	—	—	—	—
	657	369	136	4	1,715	1,588
Fund balances:						
General	141	67	1,579	1,519	729	614
Library	937	926	—	—	—	—
John L. Carey Scholarship Fund	491	481	—	—	—	—
Accounting Education Fund for Disadvantaged Students	317	216	—	—	—	—
E.W. Sells Award Fund	23	22	—	—	—	—
Sydney Orbach Fund	1	1	—	—	—	—
	1,910	1,713	1,579	1,519	729	614
	$2,567	$2,082	$1,715	$1,523	$2,444	$2,202
****NOTE:***						
Marketable securities at market	$1,856	$2,068	$1,194	$1,130	$1,258	$1,280

RELATED ORGANIZATIONS

STATEMENT OF CHANGES IN FUND BALANCES—YEAR ENDED JULY 31

	American Institute of Certified Public Accountants Foundation 1993	1992	AICPA Benevolent Fund, Inc. 1993	1992	Accounting Research Association, Inc. 1993	1992
	($000)		($000)		($000)	
Additions:						
Investment and sundry income	$ 297	$ 165	$ 42	$ 56	$ 53	$ 65
Gain on sale of securities	56	59	123	86	90	63
Contributions/dues	40	30	150	174	3,522	3,250
Contributions from Institute	600	—	41	—	—	—
	993	254	356	316	3,665	3,378
Deductions:						
Support/scholarships	788	585	—	—	3,173	2,953
Assistance to members and families	—	—	242	255	—	—
FASB subscription service	—	—	—	—	200	200
Other	8	10	54	37	177	115
	796	595	296	292	3,550	3,268
Increase (decrease) in fund balances	197	(341)	60	24	115	110
Fund balances, beginning of year	1,713	2,054	1,519	1,495	614	504
Fund balances, end of year	$1,910	$1,713	$1,579	$1,519	$ 729	$ 614

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

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 is limited because the Institute deals with a large number of customers in a wide geographic area. As of July 31, 1993, 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 record keeping are treated as deferred costs and amortized, on a straight-line method, over a five-year period that begins when the system becomes operational.
- Certain accounts for 1992 were reclassified to conform to the 1993 presentation.

1. MARKETABLE SECURITIES

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

	1993	1992
	($000)	
U.S. Treasury bonds and notes	$14,295	$ 6,080
Bonds, notes, and money market funds	11,733	7,478
Equities	5,499	4,158
	$31,527	$17,716
Market value	$32,493	$18,773

2. INVENTORIES

Inventories at July 31 consist of:

	1993	1992
	($000)	
Paper and material stock	$ 581	$ 635
Publications in process	880	972
Printed publications and course material	2,336	2,334
	$ 3,797	$ 3,941

3. FURNITURE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

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

	1993	1992
	($000)	
Furniture and equipment	$14,530	$11,368
Leasehold improvements	9,204	2,408
	23,734	13,776
Less accumulated depreciation and amortization	6,887	6,293
	$16,847	$ 7,483

Depreciation of furniture and equipment and amortization of leasehold improvements for the years ended July 31, 1993 and 1992 were $2,222,000 and $2,649,000.

4. LONG-TERM DEBT

Long-term debt at July 31 consists of:

	1993	1992
	($000)	
Six percent note payable to the Jersey City Economic Development Corporation; interest is payable quarterly and principal is due annually from August 15, 1993 through August 15, 1995. Secured by equipment with a net book value of $918,000 at July 31, 1993	$ 800	$800
Five percent note payable to the New Jersey Urban Development Corporation; interest is payable monthly and the entire principal is due on February 15, 2013. Secured by equipment with a net book value of $1,440,000 at July 31, 1993. The loan agreement stipulates that the Institute will not, without the lender's permission, lease or purchase fixed assets in excess of $4,000,000 in any fiscal year	1,200	–
Five-year note payable to Bankers Trust Company; interest is payable monthly at either the prime rate or the LIBOR rate plus one and a quarter percent and principal is due in equal semiannual installments from April 1, 1993 through October 1, 1997. Secured by marketable securities with a book value of $8,156,000 at July 31, 1993	4,500	–
	6,500	800
Less current portion	1,200	–
	$5,300	$800

Annual principal payments of long-term debt in fiscal years subsequent to July 31, 1993 are: 1994—$1,200,000; 1995—$1,300,000; 1996—$1,300,000; 1997—$1,000,000; 1998—$500,000; 2013—$1,200,000.

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

The Institute implemented a plan to reduce future costs and improve operating efficiencies by the relocation of a major portion of its 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 for the year ended July 31, 1992, 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. LEASE COMMITMENTS

Leases

Minimum rental commitments on noncancellable real estate and equipment leases in effect as of July 31, 1993 are $119,856,000. 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)
1994	$ 4,630
1995	6,322
1996	6,809
1997	6,915
1998	7,133
Years subsequent to 1998	88,047
	$119,856

Rental expense for the years ended July 31, 1993 and 1992 was $11,861,000 and $9,629,000.

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:

	1993	1992
	($000)	
Service cost—benefits earned during the year	$ 1,344	$ 1,256
Interest cost on projected benefit obligation	1,748	1,575
Return on plan assets:		
Actual	(4,011)	(3,117)
Deferred	1,562	810
Net amortization of unrecognized net asset	(274)	(274)
Net amortization of unrecognized prior service cost and net loss	100	71
	$ 469	$ 321

Funded status of the plan:

May 1

	1993	1992
	($000)	
Actuarial present value of projected benefit obligation, based on employment service to date and current salary levels:		
Vested benefits	$(18,128)	$(16,205)
Non-vested benefits	(1,325)	(1,085)
Additional amounts related to projected salary increases	(4,607)	(4,411)
Projected benefit obligation	(24,060)	(21,701)
Plan assets available for benefits, at fair value	33,231	30,186
Plan assets in excess of projected benefit obligation	9,171	8,485
Unrecognized net transition asset	(2,885)	(3,159)
Unrecognized net gain	(8,556)	(7,298)
Unrecognized prior service cost	1,367	1,538
Accrued pension cost	$ (903)	$ (434)

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 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 adoption of FAS No. 87 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 8% as of May 1, 1993 and 8¼% as of May 1, 1992. The expected long-term rate of return on plan assets used in determining net pension expense for fiscal years ended July 31, 1993 and 1992 was 9½%. The assumed rate of increase in future compensation levels was 4¾% for 1993 and 5½% for 1992.

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 $412,000 and $376,000 for the years ended July 31, 1993 and 1992.

9. 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 $208,000 and $189,000 for the years ended July 31, 1993 and 1992.

In December 1990, the FASB issued Statement No. 106, *Employers' Accounting for Post-retirement Benefits Other Than Pensions,* (FAS No. 106). FAS No. 106 requires that, beginning no later than the Institute's fiscal year ending July 31, 1996, 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 $2,800,000 for the calendar year 1993.

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 1993. 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, 1993

Balance Sheet	*Private Companies Practice Section*	*SEC Practice Section*
	($000)	
Assets:		
Cash	$ 5	$ 11
Marketable securities at lower of cost or market*	1,917	1,317
	1,922	1,328
Dues and other receivables	62	144
	$1,984	$1,472
Liabilities and Fund Balances:		
Accounts payable	$ 178	$ 156
Advance dues	361	758
Fund balances	1,445	558
	$1,984	$1,472
*NOTE: Marketable securities at market	$1,951	$1,387

Year Ended July 31, 1993

Statement of Changes in Fund Balances	*Private Companies Practice Section*	*SEC Practice Section*
	($000)	
Additions:		
Dues	$ 858	$1,641
Gain on sale of securities	33	79
Investment and sundry income	422	48
	1,313	1,768
Deductions:		
Expenses of Public Oversight Board:		
Salaries and fees	–	915
Administrative expenses	–	689
	–	1,604
Peer review manuals	110	65
Printing	11	13
Membership directory	5	–
Administrative and other expenses	1,151	356
	1,277	2,038
Net increase (decrease) in funds	36	(270)
Fund balances, beginning of year	1,409	828
Fund balances, end of year	$1,445	$ 558

Included in administrative and other expenses for the year ended July 31, 1993 are reimbursements to the Institute, in connection with quality review programs, of $180,000 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, 1993 and 1992 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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