1994

AICPA annual report 1993-94; Vision & leadership

American Institute of Certified Public Accountants

VISION & LEADERSHIP

1993 ~ 1994
Annual Report

The American Institute of Certified Public Accountants is the national professional organization for all certified public accountants (CPAs). 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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The strength of the American Institute of Certified Public Accountants (AICPA) lies in its accomplished and diverse membership. Every year members in industry and government, public practitioners and educators alike contribute their vision and leadership to ensuring the profession's viability and preserving its public commitment. This year exemplifies what these collective talents can achieve.

Our agenda has been challenging. The AICPA Board's white paper, *Meeting the Financial Reporting Needs of the Future: A Public Commitment from the Public Accounting Profession* spelled out more than 20 initiatives to preserve and strengthen public confidence in financial reporting and the services CPAs provide.

At the same time, we realized that we could not fulfill this public commitment by ourselves. In this light, we urged other participants in financial reporting — including management, attorneys, government regulators and legislators — to join us in endeavoring to meet the evolving financial reporting needs of investors and the public.

ENHANCING RELIABILITY

Over the past year, our commitment has translated into aggressive, innovative programs drawing on the full range of resources of the Institute and its members. We are seeking to close the expectation gap, working to reform financial reporting, battling the liability crisis, and exploring ways to assure the relevancy of our profession today and well into the future.

Special task forces of the Auditing Standards Board (ASB) have begun evaluating the auditor's responsibility for detecting and reporting errors and fraud, as well as the ways in which analytical procedures can assist in detecting fraud. The Ethics Division is focusing on such key issues as clarifying the distinction between client advocacy and client service. Other AICPA programs and committees are aggressively seeking ways to improve the value of financial reporting to the people who rely on it. For example, in April the Accounting Standards Executive Committee (AcSEC) approved a final statement of position (SOP) on disclosure of the risks and uncertainties that enterprises face in today's volatile economic environment. The SOP will be issued later this year.

The AICPA's commitment to fulfilling its public mission — spelled out in a set of initiatives entitled, *Meeting the Financial Reporting Needs of the Future: A Public Commitment from the Public Accounting Profession* — is driving a wide range of programs designed to:

- Improve the prevention and detection of fraud;
- Enhance the utility of financial reporting for users;
- Assure the independence and objectivity of the independent auditor;
- Discourage unwarranted litigation that inhibits innovation and undermines the profession's ability to meet evolving financial reporting needs; and
- Strengthen the accounting profession's disciplinary system.

Improving Financial Reporting

Dramatic changes are taking place in today's business environment. Financial transactions grow ever more complex; business conditions and technology continue to transform at an astounding pace. This climate has created demands for more relevant and diverse financial information. The Special Committee on Financial Reporting's extensive research into the information needs of investors and creditors concluded this year with a survey of 1,200 users and an analysis of the costs of providing financial information — including potential litigation costs associated with forward-looking information and the competitive costs of certain disclosures.

Based on its findings, the Special Committee developed a comprehensive model and sample application of business reporting, including auditor association. This September the committee issued to standard setters and regulators a set of recommendations for implementing the model and auditor association. The recommendations would help business reporting better focus on opportunities and risks, and make it far more relevant than it is today. A coordinating committee will be appointed to help ensure that the work of the Special Committee on Financial Reporting receives the attention it deserves.

Expanding Professional Services

The profession's commitment to enhancing the value of the services it provides also prompted the AICPA to convene a blue-ribbon panel of auditors, regulators, and accounting scholars to consider the future of auditing. Participants identified information technology as a key force that will alter the assurance function of the year 2000.

Information technology has already begun to change the way audits are performed, how financial statement users receive their information, and the very content of that information. Although technology poses real challenges for the profession, it also offers tremendous opportunities for expanding the assurance function. With this goal in mind, the Board of Directors formed a new Committee on Assurance Services to explore these issues in depth. The committee will periodically issue recommendations during the expected two-year duration of this effort.

In further recognition of the rapidly changing nature of the audit and the increasingly diverse services being required of CPAs, the AICPA took other significant steps to ensure the profession's continuing relevance. To attract people with the array of skills necessary to meet current and future demands, the Council approved a framework for ownership of CPA firms by non-CPAs. To encourage members to develop new skills while meeting the profession's exacting standards, a new process for offering credentials in specialized areas has been created, and recommendations to improve the delivery, quality and content of CPE offerings have been adopted.

Working for Fairness

A key message to legislators, regulators and the media has been that the cost of excessive liability extends beyond the accounting profession. Companies forced to divert financial and human resources to often frivolous lawsuits cannot maintain a competitive edge in today's global economy.

Through our Washington office and vigorous Key Person Program, we won the support of legislators across the country. Senators Christopher Dodd (D–CT) and Pete Domenici (R–NM) introduced a bill incorporating key principles that would help restore balance and fairness to the liability system. Equally encouraging was the U.S. Supreme Court's ruling that punitive damage awards must be subject to judicial review.

A top state priority this year was increasing the forms of practice available to CPAs. State CPA societies across the country advanced all aspects of this initiative, including enactment of laws to allow CPAs to form Limited Liability Companies (LLCs) and Limited Liability Partnerships (LLPs). As of June 1994, 44 states had passed LLC laws; accountants can form LLCs in 35 of those states. Fifteen states and the District of Columbia had enacted LLP laws.

Assisting state societies in these efforts were several AICPA tools. A model LLP bill, sample testimony, and talking points were developed by the Accountants' Legal Liability Subcommittee. To assist states on tort reform, the subcommittee has developed a manual for the Legal Liability GAP Analysis Program, which helps societies "bridge the gap" between the existing legal liability environment and the ideal environment.

Honed by our work on litigation reform, our new political edge will enable us to more effectively chip away at other challenges requiring legislative action, including health care, pension reform, and most importantly, workload compression.

Serving a Diverse Membership

Even as we tackle legislative and technical challenges, our main priority remains meeting the needs of our members. Periodically, the Institute surveys various membership segments to assess how those needs may be changing. This year, for example, we surveyed members in industry. In line with those results, we established a standing subcommittee whose goal is to increase the level of CPE offerings to this growing membership segment. In addition, we offered our first symposium for senior financial executives in large companies and presented our first annual Outstanding CPA in Business and Industry Award.

The Management Accounting Executive Committee pressed ahead on its benchmarking project to identify best practices. Designed to systematically collect information about what companies are spending on finance and accounting, the project has attracted almost 400 companies. Complementing this effort is the committee's new program to create a vision statement for the financial management function.

This year, as well, the Women and Family Issues Executive Committee completed a survey of 5,000 accounting firms to gather baseline data on the status of women in the profession and the availability of work and family programs. The survey will be updated periodically to measure the profession's progress in these areas. The initial survey findings were presented in June at a conference on women and family issues cosponsored by the committee, the New York State CPA Society, and Catalyst. The committee has also created a special subcommittee to work on relevant legislative and public policy issues.

On another front, the AICPA Board of Directors approved a plan to combine the Private Companies Practice Section (PCPS) peer review program and the AICPA quality review program, effective with reviews commencing in April 1995. The primary reason for combining these programs is to eliminate the confusion to AICPA members and to the public of offering three separate, although similar, review programs.

New Dimensions

Meeting today's diverse challenges will require a unified effort on the part of the entire profession. To this end, the Institute is forging a stronger collaborative partnership with state CPA societies. From legislative initiatives to delivery of member benefits, the alliance between the AICPA and state organizations is translating into new ways of working faster and smarter. At a special strategic planning meeting held this past July, representatives from both the Institute and state societies explored and developed preliminary recommendations on matters ranging from re-engineering the image of CPAs to enhancing efficiencies through the use of new technologies.

Without question, the accounting profession must embrace new dimensions; it can no longer proceed on the basis of "business as usual." The collective force of legislative, financial, and technological changes has created a much higher sense of urgency for our profession. A new, expanded role for CPAs is imperative, as is bold and innovative leadership.

As Chair and President of the Institute, we are proud of the volunteers and staff members whose efforts are helping us to advance both the profession's agenda and the public interest. In the coming year, we will continue to seek ways to foster our profession's evolution and to ensure that the work of the CPA is made more effective, more relevant, and more in line with the public's needs and expectations.

Chair Dominic A. Tarantino and President Philip B. Chenok

Dom Tarantino

Dominic A. Tarantino,
Chair of the Board

Philip B. Chenok

Philip B. Chenok,
President

A Comment from the President Regarding a Change in Leadership

After thoughtful reflection, I have decided not to seek re-election as President of the Institute when my term expires on June 30, 1995. Serving as President of the Institute has been a "dream-come-true." With the exception of family, it has been, personally and professionally, the most satisfying activity of my life. The time has come, however, for me to take on new challenges.

I am quite proud of the record of progress and service to the profession and to the public that the Institute achieved during the 15 years of my term as President. I would like to thank the chairs and members of the Board, members of Council and committees, members of the staff of the Institute and of the state CPA societies — and, most of all, the members of the Institute who were the real force behind our achievements.

A search already is under way for a new President. I pledge my full support to the future leadership of the Institute and will stand ready to continue serving the membership in any way that I am able.

Sincerely,

Philip B. Chenok

Philip B. Chenok

THE PROFESSION'S VOICE IN WASHINGTON

The AICPA's office in Washington, D.C., is your voice in our nation's capital. From the halls of Congress to the back rooms of the federal agencies, we represent CPAs across the country.

Pressing to Reform Securities Litigation Laws

"The current system is broken, plain and simple," the AICPA told senators examining the need for securities law reform. The hearings in 1993, conducted by the Senate Securities Subcommittee, offered the Institute its first opportunity to present to Congress its case about the need to change the nation's litigation system.

Our arguments, and those of others urging securities litigation reform, persuaded the chairman of the Securities Subcommittee, Senator Christopher Dodd (D–CT), of the need for legislative action. He introduced the Private Securities Litigation Reform Act of 1994, S. 1976, which was overwhelmingly endorsed by the AICPA Board of Directors. The bill aims to discourage the filing of baseless suits and also protects the rights of defrauded investors.

One especially important provision of S. 1976 would establish a form of proportionate liability for defendants who are not the primary wrongdoers in the suit. The bill also would establish a Public Auditing Self-Disciplinary Board to make the accounting profession's self-discipline swifter and more efficient. Also included are the amended provisions of the Financial Fraud Detection and Disclosure Act which the AICPA now supports. The amended language preserves within the profession the principal responsibility for setting auditing standards and provides auditors with private civil liability protection regarding reports they may be required to provide to the SEC.

Introduction of S. 1976 is evidence that we've broken important new ground. Signing up cosponsors is the next phase of the fight, and a critical step in countering opponents of litigation reform. We've thrown our best troops into the fray — our Key Persons. They are seasoned fighters, having already helped sign up more than 140 House members as cosponsors of H.R. 417, Rep. Billy Tauzin's (D–LA) litigation reform bill.

The AICPA also has joined forces with a broad group of other organizations to enhance our chances of achieving legal liability reform. They include the American Business Conference, American Electronics Association, American Stock Exchange, Association of Publicly Traded Companies, Biotechnology Industry Organization, Electronic Industries Association, Information Technology Association of America, National Association of Manufacturers, National Investor Relations Institute, National Venture Capital Association, Semiconductor Industry Association, and Software Publishers Association.

Defending a U.S. Supreme Court Decision

The AICPA and its Key Persons helped defeat congressional efforts to overturn a U.S. Supreme Court ruling that limits accountants' liability. In *Mertens v. Hewitt,* the Court ruled that pension plan beneficiaries cannot sue such non-fiduciaries as accountants for economic damages for a breach of a fiduciary duty under the Employee Retirement Income Security Act (ERISA). Opponents of the ruling, including the U.S. Department of Labor (DOL), are drafting legislation that would overturn the case. The Institute will continue to collaborate with members of Congress and DOL officials to protect innocent parties from liability because of the actions of others.

The AICPA endorsed Administration proposals that would reduce redundant regulations, (pictured) and raise the caliber of accounting standards used by federal agencies.

Regulating Financial Planners

An AICPA-backed bill to regulate financial planners sped through the House of Representatives. The measure, H.R. 578, preserves the professional exclusion CPAs are now granted under the Investment Advisers Act of 1940, and aims its new regulatory might at those who engage in the types of activities that most frequently lead to fraud and abuse. The original version of the bill would have expanded the definition of "investment adviser" to include those using the term "financial planner" and narrowed the exclusion. Also omitted from H.R. 578 was language in the earlier version that would have expanded the liability of advisers.

The Senate also passed a financial planning bill, but it takes a narrower approach. House and Senate negotiators stalled in their efforts to write a final bill because they cannot agree on how much new regulation should be imposed on financial planners. The AICPA will continue its watch on the bill to preserve the changes we fought so hard to win.

AICPA Develops Tool on Derivatives

Recognizing the mounting public concern about derivatives, the AICPA, at a Washington, D.C., press briefing, released a tool it developed for top-level management to use to chart the way through the complex world of derivative financial instruments. The list of six detailed questions focuses on an organization's internal control structure for handling derivatives' risks. Boards of directors, top management, and audit committees of public and private enterprises can use the questions to determine if they have effective oversight of their entity's derivatives activities. The questions were broadly distributed to the media, federal regulatory agencies, all members of Congress, and other business and financial organizations.

Speaking Out on Health Care Reform

The AICPA publicly backed the Congressional Budget Office when it recommended that the federal budget include health care reform costs to provide full accountability for federal spending of taxpayer monies. The AICPA's statement was the first step by the newly established Health Care Task Force to join the national health care debate.

The AICPA has also encouraged clarification and simplification of the rules defining "employees" and "independent contractors." The distinction between these groups will become more important if a health care reform package is enacted that requires employer contributions for health care.

Advocating Pension Reform

"We will pay now, or we will pay later," the AICPA told Congress in reference to the cost to the Treasury of removing certain tax disincentives to full funding of qualified pension plans. "We think there is serious potential for a far greater cost to the American taxpayers if plan funding is not improved in the near term," the AICPA cautioned at a hearing on President Clinton's pension reform package. The testimony represents the Institute's most recent step in its campaign to reform the nation's pension laws. At the hearing, the AICPA endorsed provisions to improve plan funding levels, as well as provisions requiring fuller disclosure to workers about the financial status of their plans.

Pushing to Improve Federal Financial Management

The AICPA continues its push to improve the financial management of our federal government. Our long campaign got a boost with the release of Vice President

Al Gore's report entitled *From Red Tape to Results: Creating A Government that Works Better & Costs Less*. The report on how to "reinvent" government included improved financial management as one of its fundamental goals. The AICPA has capitalized on the higher visibility the report has lent to this subject to push Congress and the Administration for broader implementation of the Chief Financial Officer's Act of 1990.

Working Behind the Scenes in Washington

The AICPA continues to monitor federal legislation and regulations to ensure that accounting and auditing matters are technically correct and do not negatively affect the accounting profession. This year we developed guidance on implementing audit requirements in the FDIC Improvement Act, commented on the Department of Labor's proposed legislative changes to ERISA audit requirements, assisted the Department of Education in developing guidance for audits of student loan programs, and issued comment letters on other important legislative and regulatory matters.

Government auditing issues remain a focus as well. This year we met with the Government Accounting Office (GAO) to discuss recommendations for changes to the Single Audit Act, expressed concerns about certain proposed revisions to *Government Auditing Standards*, and commented on Office of Management and Budget proposals.

In connection with proposals to legislate accounting for stock-based compensation, the AICPA wrote to Congress strongly opposing any legislative interference that would seriously harm the ability of the private-sector standards setters to set accounting standards for American business.

The Leading Organization for the Nation's Tax Experts

The AICPA remains a powerful force in monitoring and influencing legislation that could impact the livelihoods and workloads of the nation's tax professionals. In the past year, we have adopted new strategies for tackling several key issues, including workload compression.

Searching for a Workload Compression Solution

An AICPA task force, composed of members from the Tax Division, the Management of an Accounting Practice Committee, the Private Companies Practice Section, and the Congressional Key Person Coordinators Program, was formed and charged with considering possible solutions to the workload compression problem. Several proposals for long-term, legislative solutions have been developed by the task force and presented to the Department of Treasury.

Progress also has been made with the Internal Revenue Service toward achieving a short-term, administrative solution to the workload compression problem. While we recognize that the budget law's requirement of revenue neutrality presents a seemingly insurmountable roadblock to achieving a long-term fix, we will continue our struggle to change the law.

AICPA Pushes for Reform of S Corporation Law

A small business reform bill introduced in the House of Representatives and Senate this year would assist more than 1.5 million of the nation's small and family-owned S corporations by opening up new sources of investment and simplifying the rules under which they operate. Introduction of the legislation represents more than a year's worth of work by the Institute and others to reform subchapter S. The AICPA and its Key Persons are now engaged in a drive to sign up cosponsors for the bill and have succeeded in helping to persuade more than one-third of U.S. senators and numerous House members to become cosponsors.

"Nanny Tax" Bill Amendments

While the AICPA endorses the objectives of the bill to update and simplify the Social Security reporting requirements for domestic employees — commonly referred to as the "nanny tax" bill — we believe that amendments should be included to help ensure that the desired goals are achieved. The AICPA urged Congress to permit taxpayers to file required information with the IRS annually on a separate form, as is done now, and not combine it with Form 1040. Requiring such reporting on Form 1040 would increase filing complexity and could lead to confusion. We also recommended that the withholding information be reported by January 31, when the other domestic employee payroll information is due.

Out Front with the Regulators

The Department of Treasury has publicly credited the AICPA Tax Division as the impetus behind regulations proposed by the Internal Revenue Service to alleviate or eliminate unwarranted complexity in the individual Alternative Minimum Tax. The Tax Division has also commented on proposed tax regulations issued because of changes in the Omnibus Budget Reconciliation Act of 1993 on accuracy-related penalties, executive compensation deductibility, retroactive intangibles election, and mark-to-market relating to financial institutions.

Looking Forward on Taxation Projects

The AICPA has several other taxation projects it expects to further develop in the upcoming year. We are already promoting a legislative proposal for transfer tax relief for family businesses, since the current law makes it extremely difficult for family members to transfer businesses from one generation to the next.

The Institute has collaborated with the American Bar Association to develop a draft revenue procedure for use by the IRS that would provide taxpayers with advance ruling guidelines for determining whether a Limited Liability Company is taxed as a partnership or as a corporation. The AICPA Tax Division also has in its sights a legislative earnings and profits (E&P) proposal that would provide, on an elective basis, a "fresh start" E&P figure. E&P numbers are used by corporations to determine the taxability of certain distributions. However, since E&P figures are not required to be calculated on a yearly basis, many corporations are unable to accurately calculate the figure when required to do so.

The Source for Professional Guidance and Oversight

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, as well as on clarifying concepts essential to CPA practices of all types.

A Commitment to Quality

In late 1993, the Quality Review Executive Committee approved and published the first revisions to the standards for performing and reporting on quality reviews effective for reviews performed on or after April 1, 1994. The revisions related primarily to the off-site quality review program and aimed at improving the effectiveness of quality reviews. In a cooperative effort over the last five years, differences between the standards, procedures, checklists, and guidelines used in the quality review program and those used in the SEC Practice Section (SECPS) and Private Companies Practice Section (PCPS) peer review programs have been eliminated to the extent possible. This effort has enabled PCPS and the Quality Review Executive Committee to consider a plan to combine these two programs.

In February 1993, the SECPS embarked on a comprehensive re-evaluation of the SECPS peer review program. The objective of this "visioning" effort was to assure that the program will remain relevant and effective. As a result of this visioning effort, SECPS policies and procedures have been revised to increase the effectiveness of its peer review program. Joint task forces have been formed with the Auditing Standards Board, the PCPS Peer Review Committee, and the Quality Review Executive Committee to re-evaluate the appropriateness of the AICPA quality control standards and interpretations.

Accounting Standards

During the past year, the Accounting Standards Division issued statements of position and exposure drafts that addressed several broad-based accounting issues, including reporting on advertising costs and employers' accounting for employee stock ownership plans. Both pronouncements will improve the comparability of financial reporting. The division will soon issue a final statement of position that will improve the disclosures of the risks and uncertainties that enterprises face in today's volatile business environment.

An Accounting Standards Executive Committee task force is developing guidance on applying generally accepted accounting principles to environmental matters. The proposal will provide benchmarks for recognition of environmental remediation liabilities, include guidance on the nature of the costs to be included in the liabilities, and expand the disclosures requirements.

Auditing Standards and Guidance

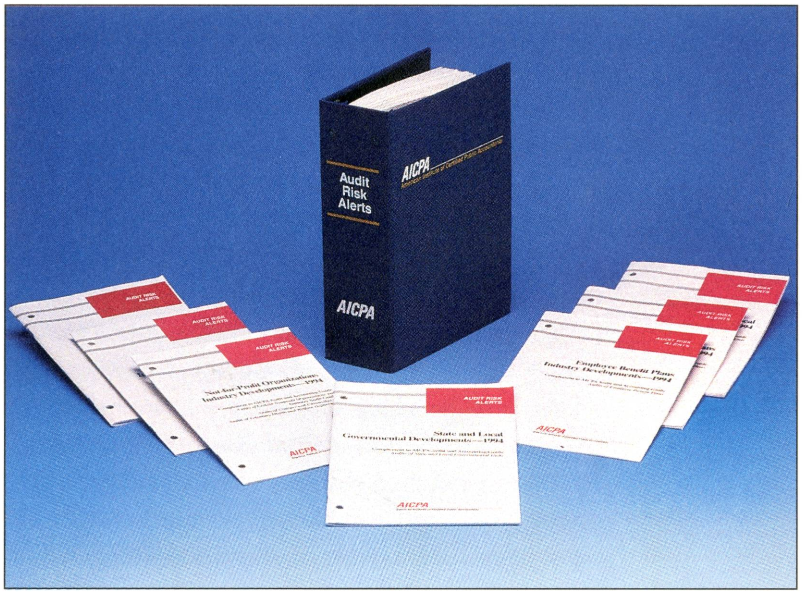
The Auditing Standards Board (ASB) focused this year on such critical areas as evaluating the auditor's responsibility for detecting and reporting errors and fraud, performing and reporting on an entity's compliance with laws and regulations, and providing guidance on using the work of specialists.

The ASB's Fraud Task Force will clarify the auditor's responsibility for detecting fraud, as stated in SAS No. 53, *The Auditor's Responsibility to Detect and Report Errors and Irregularities*, and revise factors that may indicate increased risk of management fraud and employee fraud, such as defalcations. Another task force will evaluate how analytical procedures can assist in the detection of fraud, while a third task force will evaluate how the auditor's responsibility for detecting material misstatements in financial statements, including fraud, may be affected by electronic evidence.

An important new standard, SSAE No. 3, was issued to provide guidance in designing agreed-upon procedures or examination engagements relating to an entity's compliance with specified laws or regulations. SSAE No. 3 applies to auditors of insured depository institutions who perform agreed-upon procedures to test a financial institution's compliance with specified safety and soundness laws as required by the FDIC Improvement Act of 1991.

In July 1994, the ASB issued SAS No. 73, *Using the Work of a Specialist*. The new standard clarifies the applicability of the guidance; provides updated examples of situations that might require using the work of specialists; and provides guidance when a specialist is related to the client.

During the year, the Institute also published a general audit risk alert, a compilation and review alert, and 17 industry audit risk alerts. Industry risk alerts provide non-authoritative guidance applicable to certain



industries, including an update of how audits may be affected by current economic, industry, regulatory, and accounting developments. This year, two new industry alerts were added to the series: real estate and high technology.

POB Panel Calls for Improved Auditing and Corporate Governance

A special advisory panel formed by the Public Oversight Board has issued a report recommending several steps to enhance the relationship between a company's independent auditor and its board of directors, as well as suggestions to strengthen the professionalism of auditors.

Strengthening the Professionalism of the Independent Auditor recommends that auditors look at the board of directors—not corporate management—as the client, and communicate qualitative judgments about accounting principles, disclosures and estimates to both senior management and boards of directors. It also says the POB, SEC and other bodies should support initiatives to enhance the independence of boards of directors and their accountability to shareholders. While the panel found no present need for additional regulations or legislation to address the conflict-of-interest aspect of auditor independence, it did urge the SEC to "take the lead in helping the profession reduce exposure to unwarranted litigation."

AICPA President Philip Chenok said the accounting profession accepts the challenges put forth by the POB panel and applauds the panel's call to the SEC to help find a solution to the litigation problem.

International Activities

The AICPA is a founding member of the International Accounting Standards Committee (IASC) and participates directly in all its activities. The IASC works to harmonize the world's accounting standards; it also coordinates with the International Organization of Securities Commissions (IOSCO) to achieve agreement on mutually acceptable international standards of accounting and disclosure for use in international securities offerings and other foreign listings.

During the year, the IASC approved a number of accounting standards and completed work on its "Improvements Project." The purpose of this project, which has been a major undertaking of the IASC for the past several years, was to identify and remove alternative accounting treatments within their literature. Historically, this had been a major criticism of international standards.

In addition, during the year, IOSCO endorsed the use of IAS 7, *Cash Flow Statements*, and agreed to a list of core standards to cover accounting issues that an enterprise would likely encounter in preparing financial statements.

The International Auditing Practices Committee (IAPC) of the International Federation of Accountants approved issuance of a codified set of International Standards on Auditing (ISAs). The issuance represents a culmination of over two years of work designed to consolidate, reformat, update, and enhance the relevancy of the existing standards. Among the codified ISAs is a new standard on the auditor's report, which more extensively describes the responsibilities of management and the auditor for the financial statements. The new ISAs will be published in September 1994, at which time the existing ISAs will be withdrawn.

The IAPC is continuing its work on improving ISAs. The Committee's agenda now includes subjects such as comparative financial statements, going concern, audit sampling, prospective financial information, reporting on internal control, and compliance with laws and regulations.

The Best in Technical and Software Support

The Technical Information Hotline continues to be the cornerstone of the AICPA's efforts to provide members with the professional guidance they need. In the last year, the Hotline staff responded to over 50,000 technical inquiries. Frequently raised inquiries and our answers were published in the AICPA's *Technical Practice Aids* to help members who might encounter similar situations.

The Integrated Practice System (IPS) is a collection of practice tools, including engagement manuals, software, and training programs, designed to help practitioners conduct their increasingly complex accounting and auditing engagements efficiently and effectively. The IPS engagement manual product line is currently comprised of nine titles — two of which were released in fiscal year 1994.

To stay on the forefront of technology and to provide the best solutions for using that technology, the software department is developing products in both DOS and Windows platforms. The first Windows-based title to be released by AICPA Software, *Audit Program Generator for Windows*, will be published in the fall of 1994.

Members also have access to the Electronic Research

Series, a highly sophisticated, but simple-to-use research tool for electronically accessing technical pronouncements and disclosure guidelines such as *Professional Standards*, *Technical Practice Aids*, and the *Audit and Accounting Guides*. In addition, we offer an electronic database called the National Automated Accounting Research System (NAARS), which contains the financial statements, footnotes, and auditors' reports of over 4,000 companies each year. This database is available in CD-ROM format *(CD-NAARS)* directly from the AICPA, and on-line through Mead Data Central's Lexis/Nexis service.

Tailored Publications to Meet Member Needs

Committed to fulfilling member needs, the *Journal of Accountancy* continues to introduce new columns and services. Among the most important new offerings is the delivery of CPE credits through the *Journal*. The program, called *CPE Direct*, consists of reading selected articles in the *Journal* and successfully completing a study guide. The program began with the January 1994 issue and, to date, has attracted nearly 10,000 subscribers.

In March, the magazine published the first of a long-term series specifically designed to give CPAs cutting-edge information on issues and trends, ranging from technology and practice management to technical and professional issues. Several new columns elicit member participation. They include "Focus On," a monthly feature in which members express their opinions or experiences with subjects of widespread interest and "In My Opinion," a forum offering readers the opportunity to speak out on vital issues. Other service-specific new columns include "Career Clinic" and "TechCues," in which readers' computer questions are answered.

The *Journal's* member outreach program included six roundtables in which members and *Journal* staff discussed expanding editorial coverage to meet member needs. Other facets of the program have *Journal* editors attending selected committee meetings and maintaining monthly contact with members of its Board of Editorial Advisers to obtain their advice on improving the *Journal*.

To help members better service clients, the Institute offers the *CPA Client Bulletin*, *CPA Client Tax Letter* and the *CPA Client Health Care Letter*. Together, these newsletters reach 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.

A biannual readership survey of *The CPA Letter* was conducted to gauge members' feelings about the newsletter and determine how it could more effectively serve them. According to the survey, 87 percent of the membership rated *The CPA Letter* as "good" or "excellent." One in three members finds the newsletter to be more useful now than it was two years ago; additionally, one in four members spends more time reading the publication now than two years ago. These numbers underscore the improvements made to the newsletter in response to a readership survey conducted in the fall of 1991.

The Leading Accounting Library

The AICPA's library collection is continually increasing and expanding to keep pace with the diverse information needs of members and staff. Thirty-five new titles were added to our subscription list of journals and newsletters, covering subjects from forensic accounting to the Internet. Our book collection now totals 114,689 volumes with 3,816 acquisitions in the past year. Since the library database became available on the LAN, staff now have access to the library catalog at their desks — 78,000 records of book and journal articles from 1989 to date.

Sources and Occupations of AICPA Membership							
	1982	1984	1986	1988	1990	1992	1994
Total AICPA Membership	188,706	218,855	240,947	272,479	295,633	308,280	318,829
Public Accounting	52.5%	51.5%	49.1%	46.5%	44.5%	42.6%	41.3%
Business & Industry	37.6%	38.4%	39.5%	39.6%	40.4%	40.6%	40.9%
Education	2.5%	2.7%	2.8%	2.7%	2.7%	2.4%	2.4%
Government	3.2%	3.3%	3.2%	3.6%	3.7%	4.1%	4.4%
Retired & Miscellaneous	4.2%	4.1%	5.4%	7.6%	8.7%	10.3%	11.0%
Membership in Public Practice	99,141	112,673	118,226	126,771	131,508	131,306	131,630
Firms with one member	23.5%	23.1%	25.1%	24.8%	24.3%	23.6%	23.5%
Firms with 2–9 members	34.0%	34.0%	34.3%	33.6%	34.3%	35.5%	36.5%
Firms with 10 or more members, except the	14.5%	15.1%	15.0%	16.4%	17.6%	19.8%	19.9%
25 largest firms	28.0%	27.8%	25.6%	25.2%	23.8%	21.1%	20.1%

Membership Section and Committee Reports

Tax

In addition to its extensive legislative and regulatory activities *(see pages 7 to 8)*, the Tax Section automatically provides its members with the following publications: the annual *Tax Practice Guides and Checklists* (over 300 pages in length), topical practice guides, and subscriptions to *The Tax Adviser* magazine and the section newsletter. Members also receive agendas, minutes, and major correspondence, and they are invited to attend meetings of the section and its committees. This enables members to follow developments in specific areas of technical or tax practice interest.

To encourage use of powerful new technology, the tax section has aggregated the bargaining power of its 25,000 members to negotiate discounts with most of the companies that produce tax research software on CD-ROM. To help reduce practice costs, section members have also received discounts on such externally produced print publications as the IRS Code, an annual tax manual, and a series of practice handbooks.

Division for Firms — SEC Practice Section and Private Companies Practice Section

In keeping with the 1993 initiatives of the AICPA Board of Directors and the special report and accompanying recommendations advanced by the independent Public Oversight Board, the SECPS executive, peer review and quality control inquiry committees have emphasized improving the division's programs so that they more effectively safeguard the public interest. Many of the division's efforts focus on improving communications intended to help auditors increase their effectiveness. A primary example is the establishment of a Professional Issues Task Force to consider and provide information to all AICPA members in public practice through practice alerts in *The CPA Letter*. Other important communications include a periodic newsletter to SECPS member firms on timely subjects.

The SECPS membership requirement for a concurring partner review of certain audit engagements was changed to require concurring partner involvement whenever consultation occurs on an accounting or auditing matter. The peer review process was also changed to increase its effectiveness and focus more on consultation.

The Private Companies Practice Section sponsored a series of focus group discussions around the country in late 1993 to obtain member views about AICPA and PCPS benefits and programs. Information derived from these focus groups led, in part, to the formation of a special standing committee, the Small Firm Advocacy Committee, to consider and act on behalf of smaller practices. The PCPS also began expanding its efforts in the area of member benefits and specialized programs. Early examples of these benefits were complimentary copies of the AICPA 1993 *Audit Risk Alert* and the *Compilation and Review Alert* provided to all PCPS member firms.

MAP Committee

In addition to its long-standing Practice Management Conferences and Small Firm Conferences, the MAP Committee added to its group-training projects an Executive Education Program developed by the University of Texas at Austin. The six-module program, structured to require a limited amount of time away from the office, offers CPA firm partners and managers a unique opportunity to improve their decision-making and leadership skills.

The committee's new Network Program for firms with between 25 and 50 AICPA members, was successfully launched with an initial meeting in Chicago. The group agreed to meet twice a year to discuss common practice-management issues.

New publications produced include *The Marketing Advantage: How to Get and Keep the Clients You Want; Strategic Planning: A Step-By-Step Guide to Building a Successful CPA Firm;* and *WordPerfect in One Hour for Accountants.* At the same time, the committee stepped up advocacy efforts on behalf of firms through its Wage and Hour Task Force and participation on the Workload Compression and Health Care Reform Task Forces.

Management Consulting Services

The Management Consulting Services (MCS) Membership Section assists CPAs in applying management-related knowledge, skills, and techniques to all types of entities. During the past year, the MCS Section completed a year-long strategic plan, which included developing a brand new mission statement. To begin the process of implementing the strategies, we held the first annual MCS Section Meeting to launch action plans to enhance the quality of guidance and to attract a wider base of constituents to the membership section.

This year we added the *Consulting Services Manual* to the existing Integrated Practice System family of products. The manual contains technical and industry information and provides the CPA consultant with checklists and illustrative forms of communication to accomplish engagement goals.

The past year also saw the section become involved in state legislative issues, addressing such issues as professional fees for bankruptcy services and the rules of civil procedure.

To raise the visibility of CPAs as premier providers of consulting services, the MCS Section formed a strategic alliance with AT&T Capital Corporation called "Partners for Growth." The joint program provides financial grants to start-up companies that demonstrate a social benefit to their communities. CPAs will play a significant role in determining the financial grant winners in the fall of 1994. Press conferences on the program resulted in local broadcast coverage and stories in such prestigious publications as *The Wall Street Journal.*

Joseph Puleo, Chair of MCS Executive Committee being interviewed on New Partners for Growth Intitative.

In the coming year, the section will survey its members on such subjects as business trends, competition, and emerging developments in the consulting profession.

Personal Financial Planning

This year the Personal Financial Planning (PFP) Membership Section developed a strategic plan. The most important result was a restatement of our mission: to serve the public by promoting ethics and standards for all providers of PFP services; to increase awareness of CPAs as the premier providers of PFP services; and to assist section members in profitably providing quality PFP services. To carry out this mission, we have begun restructuring our programs and services to meet members' needs into the next century.

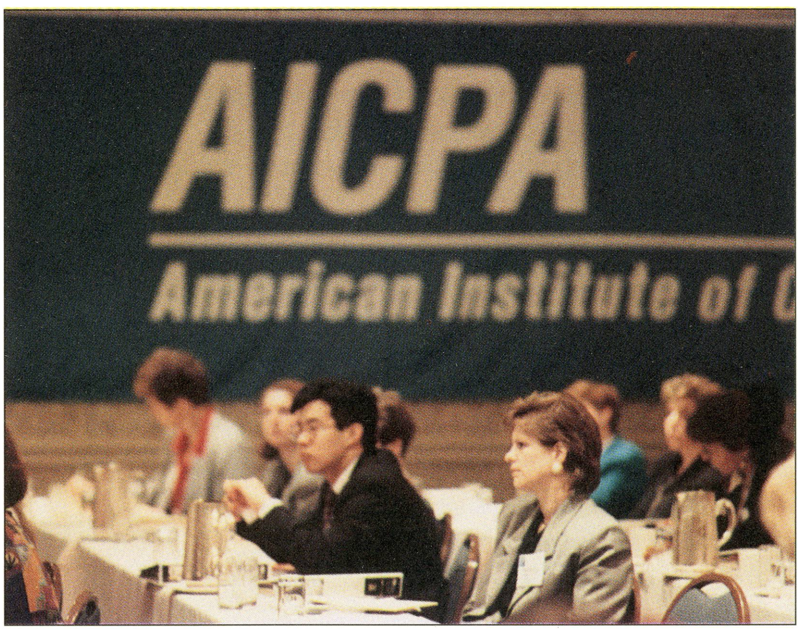
As advocates for CPA financial planners, we commented directly to the SEC's Chief Counsel on its proposal to change the rules on suitability and custodial account statements for registered investment advisers. We also maintained continual contact with state CPA society representatives and addressed legislative and regulatory proposals that would directly affect a CPA's ability to practice PFP.

A strong media relations program resulted in national print and broadcast interviews with members who are knowledgeable on a wide range of financial planning topics. Our spokesperson network generated placements in *Fortune*, *Newsweek*, *Business Week*, *The Wall Street Journal*, *The New York Times*, *Kiplinger's Personal Finance*, *Financial Planning*, *Money* and on CNBC — spurring requests for more information about CPA financial planners.

The section also administers the Personal Financial Specialist (PFS) Program. As a result of our promotional efforts, approximately 900 CPAs have earned the designation. We are undertaking a more active public relations program to promote the PFS designation to the public and to other CPAs.

Helping CPAs to sharpen their PFP skills, the PFP Section held its annual technical conference, as well as the first AICPA Investment Planning Conference, *Expanding the Investment Horizon*. This successful new conference will be cosponsored annually with the AICPA Management Accounting Division.

To foster quality services by CPA financial planners, the PFP Division issues statements on responsibilities in personal financial planning practice. During the past year two SRPFPs — *Working with Other Advisers* (SRPFP No. 2) and *Implementation Engagement Functions and Responsibilities* (SRPFP No. 3) were issued and a proposed SRPFP on monitoring and updating engagements was exposed for comment.



Clients of all CPA financial planners are better able to understand the various aspects of financial planning through brochures produced by the PFP Section. The brochures cover a range of topics, from retirement planning to choosing a personal financial planner. During the past year we introduced a series of client booklets, offering "plain English" explanations of topics such as settling an estate and investing. Other membership benefits include the *PFP Manual*, with revised sections on education funding and estate planning, and a new practice aid, *Guide to Planning for Divorce*.

To help members keep pace with emerging technology, discounts were made available to PFP Section members on the AICPA's financial planning software, *PFP Partner*. We have also negotiated discounts on resources from other organizations, including the Research Institute of America's tax research services and *Financial Planning* magazine.

Management Accounting

The Management Accounting Division is a leader in the changing world of management accounting. A key project is a joint venture with The Hackett Group, an Ohio-based management consulting firm, to provide "best practices benchmarking" of the accounting and finance functions of our members' companies and clients. Approximately 400 companies are enrolled in the study, which will eventually benefit thousands of AICPA members.

After completing extensive questionnaires on the company's accounting and finance practices and costs, participants receive a confidential analysis of the company, along with average and best practice data for comparative purposes. In its efforts to lead the profession to better and more efficient financial management practices, the Management Accounting Executive Committee continually releases best practices information and other "lessons learned" from the database to the broader financial community.

Linked closely with the division's benchmarking study is a vision project on "the new finance." This project grew out of a commonly held belief that internal accounting systems have evolved to their present state as a result of their focus on the needs of external financial reporting and, accordingly, do not produce the type of internal financial information that financial managers need to manage effectively or be competitive. The three-step project will (1) identify the "problem" with historic management accounting practices; (2) define the "vision" of management accounting in the year 2000 and beyond and the skills needed for that vision; and (3) urge members, users of management reporting information, the academic community, and others to embrace and promote the profession's vision of a new finance function.

The Management Accounting Division also continues to actively monitor the progress of ISO 9000 initiatives in the U.S., and is working with the American National Standards Institute (ANSI), the U.S. member organization of the International Standards Organization which promulgated the ISO 9000 series of quality standards.

Finally, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) has contacted the Management Accounting Executive Committee about applying the internal control guidance of COSO in the context of the rightsizing and re-engineering efforts common in financial management in the '90s.

Members in Industry

Meeting the needs of members employed in business and industry is the overriding objective of the Members in Industry Executive Committee (MIEC). This past year, MIEC held two national industry conferences, plus the AICPA's first Financial Management Symposium for senior financial executives of large companies. The two programs attracted over 1,300 participants.

Input from MIEC and its CPE Liaison Subcommittee has been instrumental in the expansion of CPE course offerings for AICPA industry members. A second edition of *Selected Readings for Financial Executives*, a popular self-study course based on articles from leading business and financial journals, was offered this year. The Institute has also entered into an agreement with the Center for Video Education, the Financial Executives Institute and the Institute of Management Accountants to jointly develop and market a video subscription series on quality management.

At the suggestion of MIEC, the AICPA has contracted with an international accounting firm to produce updated AICPA editions of the firm's guide books on doing business in Canada, Mexico and China. The three publications will be marketed primarily to members employed by small- and medium-size businesses. Discussions are continuing with several accounting firms regarding other publications focusing on international markets.

MIEC's Professional Issues Subcommittee (PIC) reviews professional issues from the point of view of members employed in business and industry. Issues on which the PIC has commented in the past year include: proposed ethics interpretations, a proposed statement of position on disclosure of risks and uncertainties; the AICPA's special report on financial reporting; and the recent FASB exposure draft on accounting for the impairment of long-lived assets.

To better understand the needs of industry members, MIEC conducted a comprehensive survey. The report details demographics on members in industry, as well as their opinions and attitudes toward the profession and the Institute, and the products and services they need to meet their professional responsibilities. MIEC will use the results as a framework for a strategic planning process.

Information Technology

This past year, members of the Information Technology Section received valuable practice aids and technology bulletins on subjects ranging from image processing and optical character recognition to computer disaster recovery plans. Through the quarterly newsletter *InfoTech Update*, they learned about key developments from technology experts. Subjects included installing server-based network CD-ROM services and network fax systems, and information on such technologies as area networks, cooperative and client/server computing, backup software, and network file updates.

Aiming to reduce the time and money members spend on software research time, we provided members with complimentary introductory copies of and subscription discounts to ICP's *InfoROM* software directory on CD-ROM. Through periodic *Technology Alerts*, members stayed on top of the latest technology developments. In addition, we offered member discounts on ICP's KONEXX Koupler and the *CPA Software News*.

Women and Family Issues

The Women and Family Issues Executive Committee testified before the Department of Labor's Glass Ceiling Commission, asserting that professional associations have a unique and important role in removing barriers to women's upward mobility. Recommendations included committing human and financial resources to the problem, defining the issues by collecting data and establishing a baseline, and using as many forums as possible to build awareness, especially among organizations' leadership.

The Executive Committee also reviewed results of its survey of 5,000 public accounting firms, which showed that promotions within public accounting are equitable, but that retaining women at the senior and supervisory levels is a challenge. Additionally, despite managing partners' perceptions that women leave the profession after having children, survey results show 89% of women returned to their firms after having a child. The survey results were presented at a first-ever conference cosponsored with the New York State Society of CPAs and Catalyst.

Minority Initiatives

In January 1994, the Minority Initiatives Committee launched a new mentor program as an additional component of the AICPA Scholarships for Minority Accounting Students. This program, Partnerships for Success, is a "one-on-one" program of involvement between a scholarship recipient and a CPA mentor. Each scholarship recipient is matched with a CPA mentor who provides guidance and support during the student's academic career. Partnerships for Success is a collaborative effort between the AICPA and participating state CPA societies, and represents a significant first step for the committee in establishing a coordinated national minority recruitment effort. The committee also hopes that Partnerships for Success and other joint programs will help improve minority CPA participation in AICPA and state CPA society programs, activities and committees.

As part of the AICPA's profession-wide campaign to recruit the "best and brightest" students into the profession, the committee created a new career guide that is targeted specifically to minority high school and early college students who may not be aware of the diverse opportunities offered by an accounting career. The guide profiles seven successful minority CPAs, with emphasis on their education, accomplishments, and employment experiences. The guide is distributed to public accounting firms, state CPA societies, high schools and colleges, and outreach organizations.

The committee also administers the AICPA Fellowships for Minority Doctoral Students, sponsors the AICPA Faculty Summer Seminar (an annual invitational conference for minority accounting educators), and publishes the AICPA *Report on Minority Accounting Enrollment, Graduates and Public Accounting Professionals*.

Enhancing Academic Excellence and Professional Development

Recruiting Success

Our new, comprehensive campaign to recruit highly motivated students into accounting has been extremely successful. In fall 1993, we offered our unique recruiting package to 50,000 high school and college teachers/advisers. The response rate was very favorable. More than 120,000 of the accounting career packets were sent to teachers. Forty state CPA societies are using the new materials in their career programs, many of which were launched in response to our aggressive career-awareness effort.

Accreditation

The AICPA has approved a new system to help ensure effective evaluation of proposed accreditation programs, sufficient member interest to make them financially feasible, and high standards for receiving and maintaining credentials.

New credentials will require an examination and 450 hours of relevant experience in the three years prior to taking the exam. Maintaining the credential will require 600 hours of experience and 60 hours of CPE in each successive three-year period following accreditation.

Any AICPA executive committee may petition the Board of Directors to create a new credential, as long as they present a viable business plan, an examination outline, and evidence of member interest. Accepted proposals must be broadly exposed for comment from the AICPA, its members, and state societies; also, member participation must be solicited. Proposals are then subject to final approval by the Board and the Council. Approved programs will be allocated resources for administration and support, and continuously monitored for financial viability.

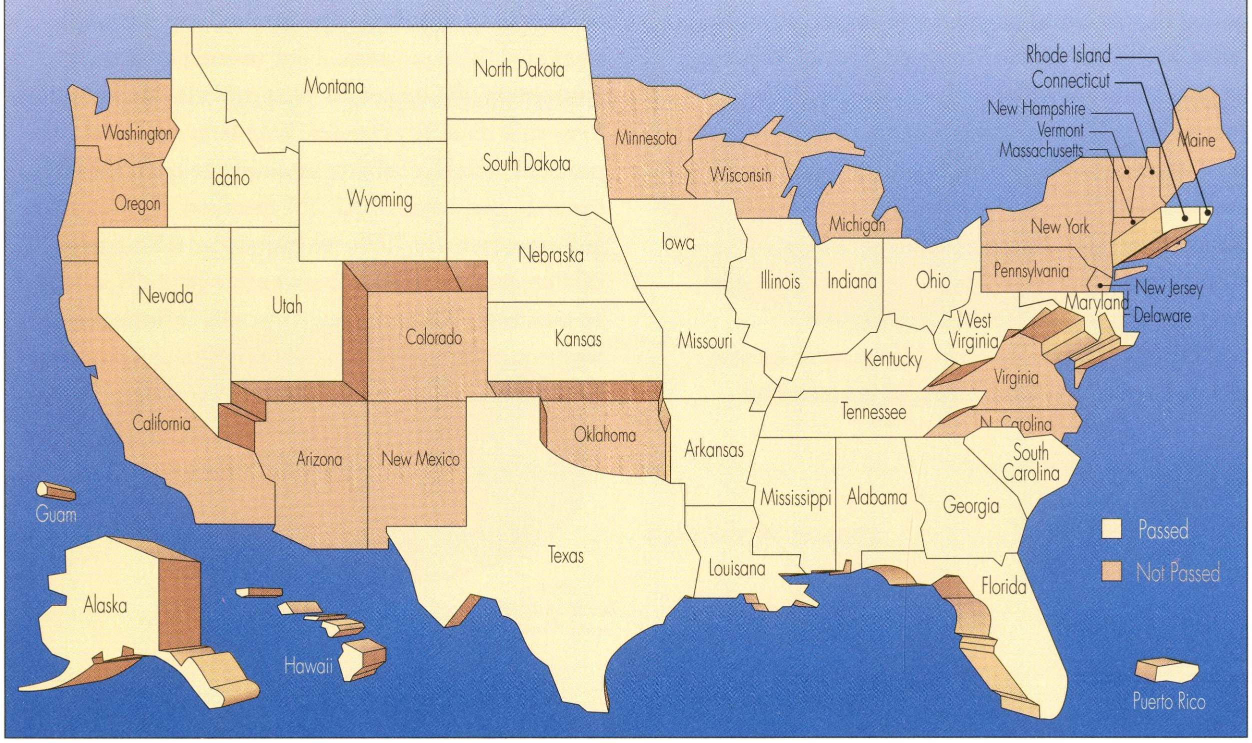
Continuing Professional Education

More than ever, CPA firms, companies, and individual CPAs are looking for ways to cut their CPE costs. This has affected the AICPA by reducing demand for traditional programs and increasing demand for lower-priced alternatives. The AICPA has responded by expanding its line of self-study and video programs. Most notable was the introduction of *CPE Direct,* a self-study program that offers 24 hours of CPE credit in four quarterly issues.

AICPA seminars, which are offered exclusively through state CPA societies, also received a boost with the introduction of a new line of Power Pack programs. These programs enable a society to offer a series of AICPA seminars featuring the same high quality instructor at a discount price. Over 600 presentations of these programs have been scheduled for 1994–95.

Planning for the future is now more important in CPE than ever. With this in mind, in 1993 the AICPA established the Special Committee on the Future of CPE. Within months, the Special Committee issued a series of nine recommendations which were then evaluated by the Task Force to Evaluate the Recom-

Jurisdictions that have passed the 150-hour education requirement



mendations Contained in the Sanford Report. In its final report, the task force called for the appointment of a new CPE Board of Management which will implement a series of recommendations dealing with strategic alliances, market research of member needs, the use of technology in CPE, and other matters.

Newly Structured Uniform CPA Examination

On May 4–5, 1994, approximately 60,000 candidates sat for the newly structured Uniform CPA Examination. The four new Examination Sections are Business Law & Professional Responsibilities (LPR); Auditing (AUD); Accounting & Reporting — Taxation, Managerial, and Governmental and Not-for-Profit Organizations (ARE); and Financial Accounting & Reporting — Business Enterprises (FARE). In addition, calculators were provided at the examination site for the ARE and FARE sections, and writing skills were assessed for answers to selected essay responses in the LPR, AUD, and FARE sections.

Expanding Benefits

Capitalizing on the Institute's group-buying power, we continue to upgrade our member affinity programs. Joining the car rental program and agreements with Xerox, Prudential Home Mortgage, Sprint, Airborne Express, Marine Midland Bank, N.A., and Dell Computer Corporation, are two new programs offering members measurable savings on externally produced products and services. An agreement with Wallace Computer Services offers members discounts on business and tax forms, stock paper and labels, and computer and office supplies.

"CPA Job Bank," a national employment database administered by Job Bank USA, assists members seeking employment and those looking for qualified employees. This is the first collaborative member affinity program between the AICPA and the state CPA societies.

We also continue to improve the core benefit programs that members have long valued. For 20 years, the AICPA has sponsored a professional liability insurance program designed for local and regional firms. This year we transferred sponsorship to CNA Insurance Company to strengthen the program's financial underwriting capability. More than 17,000 practice units are currently enrolled in the program.

The AICPA's member retirement program for firms has approximately $110 million in retirement assets and is managed by T. Rowe Price. The qualified retirement program offers four retirement options: 401(k), money purchase, profit sharing, and Simplified Employee Pension (SEP) plans.

The Benevolent Fund, Inc., has provided 60 years of assistance to AICPA members and their families who are in financial difficulties because of illness or some other major misfortune. This year, over 50,000 AICPA members contributed directly to the fund.

Historically, the AICPA has developed and maintained programs that provide health and welfare benefits to its members, who in turn have vigorously supported these programs. Now nearing its 50th anniversary, the Insurance Trust provides life insurance, long-term disability benefits, long-term care, and personal umbrella liability insurance to over 500,000 insureds, consisting of AICPA members, their families, and employees. In 1993, we introduced a long-term care program, which has been enthusiastically accepted by members. The Insurance Trust will continue its tradition of providing important and helpful programs to members and their families.

Revenue exceeded expenses by $3.4 million in the current year, which was $700,000 better than the prior year's operating result of $2.7 million. This favorable result, which brought the fund balances to $16.5 million, from $13.1 million last year, was $877,000 better than the budget for 1993–94 of $2.5 million.

Total revenue increased to $121. 3 million or $4.1 million more than the prior year. Expenses were $117.9 million or $3.5 million higher than the prior year, generally as a result of inflation. Cash flows from operations were $18.4 million, a slight increase of $805,000 over last year.

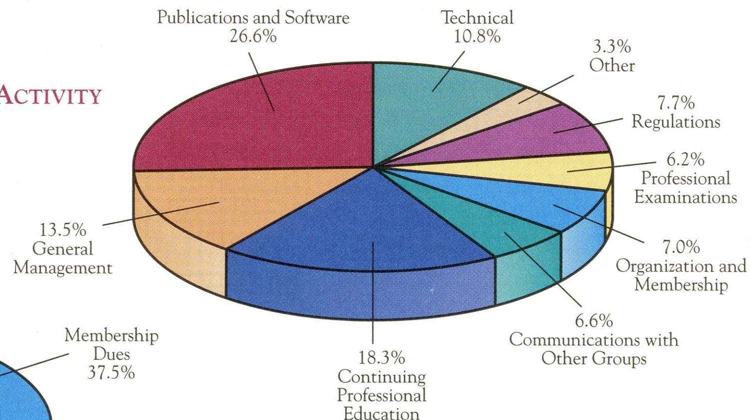
Dues revenue of $45.5 million was $2.5 million higher than last year, primarily as a result of a 5% overall dues increase authorized last year. Economic pressures continued to restrain growth of revenue from other sources. A $755,000 increase in revenue from publications was offset by modest declines of $395,000 in revenue from continuing professional education and $243,000 in revenue from software sales. Revenue from conferences increased by $553,000 over the prior year.

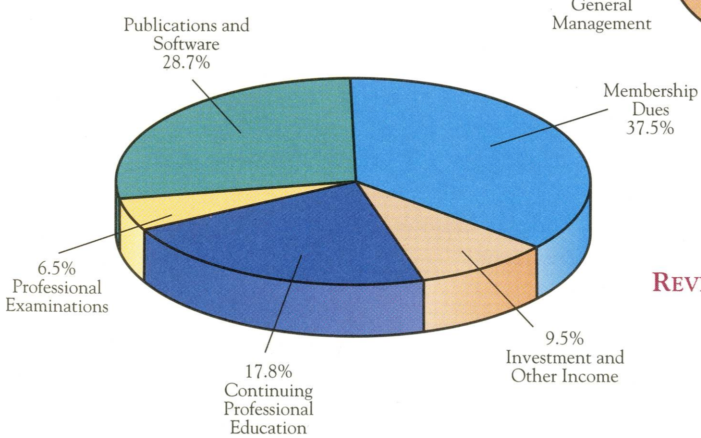
Salaries and personnel costs of $43.0 million were about 36.5% of the Institute' s operating expenses in 1993–94. The comparable cost in 1992–93 was $41.7 million; 36.4% of operating expenses. At July 31, 1994, the Institute staff included 697 positions, or 11% fewer than the peak staffing level of 785 during fiscal 1990–91. Cost savings from staff reductions were offset, however, by normal merit increases (about 4.5%) and the increasing costs of benefits.

Total cash and marketable securities at July 31, 1994 was $47.1 million, an increase of $15.5 million over the prior year. Most of the increase is caused by a variety of non-cash expenses booked in fiscal 1993–94. The composition of these non-cash expenses is detailed on the accompanying Statement of Cash Flows. During this same time period, long-term debt decreased by $1.2 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), 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. 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 and over safeguarding of assets against unauthorized acquisition, use or disposition. 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, the quality of financial reporting and the safeguarding of assets against unauthorized acquisition, use or disposition. 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 accountants follows this statement.

Internal Control System

The Institute maintains an internal control system over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition which is designed to provide reasonable assurance to the Institute's management and Board of Directors regarding the preparation of reliable financial statements and the safeguarding of assets. 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 and the safeguarding of assets. 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, 1994, its system of internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition 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 and over safeguarding of assets against unauthorized acquisition, use or disposition. The report of the independent public accountants 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, 1994 and 1993, 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, 1994 and 1993 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, 1994 and 1993, 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 12, 1994

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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 and over safeguarding of assets against unauthorized acquisition, use or disposition as of July 31, 1994 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 and over safeguarding of assets against unauthorized acquisition, use or disposition, 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 and over safeguarding of assets against unauthorized acquisition, use or disposition 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 and over safeguarding of assets against unauthorized acquisition, use or disposition as of July 31, 1994 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 12, 1994

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

BALANCE SHEET
JULY 31

	1994	1993
	($000)	
Assets:		
Cash	$ 113	$ 119
Marketable securities	46,973	31,527
Accounts receivable (less an allowance for doubtful accounts: 1994, $825,000; 1993, $447,000)	9,777	10,828
Inventories	2,965	3,797
Deferred costs and prepaid expenses	4,725	5,136
Furniture, equipment, and leasehold improvements, net	16,395	16,847
	80,948	68,254
Funds held for Division for CPA Firms	3,105	3,234
	$84,053	$71,488
Liabilities and Fund Balances:		
Liabilities and deferred revenue:		
Accounts payable and other liabilities	$15,035	$11,473
Advance dues	24,271	21,988
Unearned revenue from subscriptions and other sources	9,100	8,459
Long-term debt	5,300	6,500
Deferred rent	10,718	6,687
	64,424	55,107
Funds held for Division for CPA Firms	3,105	3,234
General fund balances	16,524	13,147
	$84,053	$71,488

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED JULY 31

	1994	1993
	($000)	
General Fund:		
Fund balances, beginning of year	$13,147	$10,458
Excess of revenue over expenses	3,377	2,689
Fund balances, end of year	$16,524	$13,147

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

	1994	1993
	($000)	
Revenue:		
Dues	$ 45,471	$ 42,936
Publications and software	34,817	34,305
Continuing professional education	21,551	21,946
Investment and sundry income	8,074	7,354
Professional examinations	7,871	7,652
Conferences	3,478	2,925
	121,262	117,118
Expenses (see also Summary of Expenses by Activity):		
Salaries	34,883	33,990
Cost of sales	23,467	22,253
Occupancy	14,104	13,631
Personnel costs	8,108	7,699
Postage and shipping	6,158	6,357
Meetings and travel	6,141	5,623
Printing and paper	4,192	4,277
Professional services	3,571	3,282
Promotions and advertising	3,090	3,308
Commercial services	2,793	2,642
Telephone	1,675	1,592
Support for professional organizations	1,416	1,647
Equipment rental and maintenance	1,317	1,403
Software costs – in-house applications	1,192	1,264
Office and computer supplies	1,096	1,190
Fees	837	673
Mailing services	778	688
Income taxes	758	858
Interest	288	259
Other	2,021	1,793
	117,885	114,429
Excess of revenue over expenses	$ 3,377	$ 2,689

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

	1994	1993
	($000)	
Professional examinations	$ 7,304	$ 7,180
Publications and software:		
Produced for sale	27,480	26,518
Distributed to members and others	3,831	4,116
Continuing professional education	21,562	22,042
Conferences	2,802	2,728
Technical:		
Accounting and review services	37	43
Accounting standards	1,358	1,332
Auditing standards	1,672	1,687
Audit and accounting guides	494	572
Federal taxation	2,959	2,993
Personal financial planning	841	775
Management consulting services	708	781
Information technology	325	287
International practice	648	497
Technical assistance to members	1,117	1,195
Library	1,611	1,476
NAARS program	378	324
Financial Accounting Foundation support	629	617
Regulation:		
Ethics and trial board	1,876	1,785
State legislation	729	605
Division for CPA Firms	1,128	1,077
Quality review programs	5,325	4,895
Organization and membership:		
Board, council and annual meetings	2,050	1,536
Nominations and committee appointments	191	191
Communications with members	408	330
Membership services	4,142	4,347
Special studies	1,450	1,679
Communications with other groups:		
Public relations	1,553	1,493
State societies	498	374
Universities	1,390	1,061
Federal government	4,304	4,219
Women and family issues	298	114
Assistance programs for minority students	834	1,171
General management	15,953	14,389
	$117,885	$114,429

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

Decrease in Cash:

	1994	1993
	($000)	
Cash Flows from Operating Activities:		
Cash received from members and customers	$ 122,926	$ 124,663
Interest and dividends received	1,265	1,124
Cash paid to suppliers and employees	(104,917)	(106,555)
Interest paid	(293)	(241)
Income taxes paid	(549)	(1,580)
Income taxes refunded	—	216
Net cash provided by operating activities	18,432	17,627
Cash Flows from Investing Activities:		
Payments for purchase of equipment	(2,418)	(11,016)
Payments for purchase of marketable securities	(84,897)	(72,297)
Proceeds from sale of marketable securities	70,077	59,836
Net cash used in investing activities	(17,238)	(23,477)
Cash Flows from Financing Activities:		
Proceeds of long-term debt	—	6,200
Payments of long-term debt	(1,200)	(500)
Net cash provided by (used in) financing activities	(1,200)	5,700
Net decrease in cash	(6)	(150)
Cash, beginning of year	119	269
Cash, end of year	$ 113	$ 119

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

	1994	1993
Excess of revenue over expenses	$ 3,377	$ 2,689
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:		
Depreciation and amortization	4,062	3,486
Gain on sale of marketable securities	(626)	(1,350)
Amortization of subscription revenue	(227)	(230)
Provision for:		
Losses on accounts receivable	420	106
Obsolete inventories	779	546
Deferred rent	4,069	4,144
Pension expense	500	469
(Increase) decrease in:		
Accounts receivable	631	528
Inventories	53	(402)
Deferred costs and prepaid expenses	(781)	75
Increase (decrease) in:		
Accounts payable and other liabilities	3,062	309
Advance dues	2,283	8,721
Unearned revenue from subscriptions and other sources	868	1,046
Deferred rent	(38)	(2,510)
Total adjustments	15,055	14,938
Net cash provided by operating activities	$ 18,432	$ 17,627

Supplemental schedule of noncash 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		AICPA Benevolent Fund, Inc.		Accounting Research Association, Inc.	
	1994	1993	1994	1993	1994	1993
	($000)		($000)		($000)	
Assets:						
Cash	$ 5	$ 5	$ 5	$ 5	$ 2	$ 3
Marketable securities, at lower of cost or market*	2,266	1,817	1,322	1,074	1,201	1,173
Notes and mortgages receivable (net of allowance for doubtful collections: 1994, $85,000; 1993, $61,000)	—	—	449	447	—	—
Dues/other receivables	16	22	12	11	1,374	1,264
Due from Institute	651	723	203	178	1	4
	$2,938	$2,567	$1,991	$1,715	$2,578	$2,444
Liabilities and Fund Balances:						
Liabilities and deferred revenue:						
Accounts payable	$ 51	$ 56	$ —	$ —	$ 305	$ 330
Advance contributions/dues	151	123	166	136	1,398	1,385
Scholarships payable	489	478	—	—	—	—
	691	657	166	136	1,703	1,715
Fund balances:						
General	247	141	1,825	1,579	875	729
Library	940	937	—	—	—	—
John L. Carey Scholarship Fund	506	491	—	—	—	—
Accounting Education Fund for Disadvantaged Students	533	317	—	—	—	—
E.W. Sells Award Fund	20	23	—	—	—	—
Sydney Orbach Fund	1	1	—	—	—	—
	2,247	1,910	1,825	1,579	875	729
	$2,938	$2,567	$1,991	$1,715	$2,578	$2,444
****Note:***						
Marketable securities at market	$2,285	$1,856	$1,364	$1,194	$1,222	$1,258

Related Organizations

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.	
	1994	1993	1994	1993	1994	1993
	($000)		($000)		($000)	
Additions:						
Investment and sundry income	$ 77	$ 65	$ 59	$ 42	$ 54	$ 53
Gain on sale of securities	22	56	69	123	42	90
Contributions/dues	765	272	433	150	3,506	3,522
Contributions from Institute	350	600	37	41	—	—
	1,214	993	598	356	3,602	3,665
Deductions:						
Support/scholarships	869	788	—	—	3,148	3,173
Assistance to members and families	—	—	283	242	—	—
FASB subscription service	—	—	—	—	167	200
Other	8	8	69	54	141	177
	877	796	352	296	3,456	3,550
Increase in fund balances	337	197	246	60	146	115
Fund balances, beginning of year	1,910	1,713	1,579	1,519	729	614
Fund balances, end of year	$2,247	$1,910	$1,825	$1,579	$ 875	$ 729

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, 1994, 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 the straight-line method 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 the straight-line method, over a five-year period that begins when the system becomes operational.
- Fees paid to consulting firms for the development of software packages that are marketed by the Institute are accounted for in accord with the provisions of FAS No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed*. FAS No. 86 requires costs of software development to be expensed until the technological feasibility of the product has been established. After that point, development costs are capitalized.
- Certain accounts for 1993 were reclassified to conform to the 1994 presentation.

1. MARKETABLE SECURITIES

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

	1994	1993
	($000)	
U.S. Treasury bonds and notes	$17,168	$14,295
Bonds, notes, and money market funds	22,947	11,733
Equities	6,858	5,499
	$46,973	$31,527
Market value	$47,303	$32,493

2. INVENTORIES

Inventories at July 31 consist of:

	1994	1993
	($000)	
Paper and material stock	$ 612	$ 581
Publications in process	896	880
Printed publications and course material	1,457	2,336
	$ 2,965	$ 3,797

3. FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

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

	1994	1993
	($000)	
Furniture and equipment	$16,164	$14,530
Leasehold improvements	9,689	9,204
	25,853	23,734
Less accumulated depreciation and amortization	9,458	6,887
	$16,395	$16,847

Depreciation of furniture and equipment and amortization of leasehold improvements for the years ended July 31, 1994 and 1993 were $2,870,000 and $2,222,000.

4. LONG-TERM DEBT

Long-term debt at July 31 consists of:

	1994	1993
	($000)	
Six percent note payable to the National Westminster Bank as assigned from the Jersey City Economic Development Corporation; interest is payable quarterly and principal is due in two remaining installments of $300,000 on August 15, 1994 and 1995. Secured by equipment with a net book value of $869,000 at July 31, 1994	$ 600	$ 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 $1,360,000 at July 31, 1994. 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	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 semi-annual installments of $500,000 through October 1, 1997. Secured by marketable securities with a book value of $8,793,000 at July 31, 1994	3,500	4,500
	5,300	6,500
Less current portion	1,300	1,200
	$4,000	$5,300

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

5. DEFERRED RENT

The Institute has several long-term leases for the rental of real estate. The leases include provisions for the abatement of rental payments, amounts to be paid to the Institute by the landlords, as well as scheduled base rent increases over the respective lease terms. The abatement of rent payments and landlord payments primarily relate to the Institute's relocation of its operations to new rental premises in Jersey City, New Jersey in the summer of 1992. The total amount of the base rent payments, net of the amounts to be paid to the Institute by the landlords, are being charged to expense using the straight-line method over the respective lease terms. The accumulated result of using the straight-line method of expensing rent in excess of actual rental payments amounted to $10,718,000 and $6,687,000 as of July 31, 1994 and 1993, respectively.

6. 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*.

7. Commitments

Leases

Minimum rental commitments on noncancellable real estate and equipment leases in effect as of July 31, 1994 are $138,431,000. This amount does not include future escalations for real estate taxes and building operating expenses.

Minimum rental commitments are:

Year Ending July 31

($000)	
1995	$ 6,776
1996	7,447
1997	7,427
1998	8,500
1999	8,493
Years subsequent to 1999	99,788
	$138,431

Rental expense for the years ended July 31, 1994 and 1993 was $11,882,000 and $11,861,000.

Construction

As of July 31, 1994, the Institute had a construction commitment of $2,983,000 for leasehold improvements related to the relocation of certain operations from New York City to Jersey City, New Jersey.

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:

	1994	1993
	($000)	
Service cost — benefits earned during the year	**$ 1,479**	$ 1,344
Interest cost on projected benefit obligation	**1,882**	1,748
Return on plan assets:		
Actual	**(1,546)**	(4,011)
Deferred	**(1,118)**	1,562
Net amortization of unrecognized net asset	**(274)**	(274)
Net amortization of unrecognized prior service cost and net loss	**77**	100
	$ 500	$ 469

Funded status of the plan:

May 1

	1994	1993
	($000)	
Actuarial present value of projected benefit obligation, based on employment service to date and current salary levels:		
Vested benefits	**$(20,925)**	$(18,128)
Non-vested benefits	**(1,604)**	(1,325)
Additional amounts related to projected salary increases	**(4,675)**	(4,607)
Projected benefit obligation	**(27,204)**	(24,060)
Plan assets available for benefits, at fair value	**33,793**	33,231
Plan assets in excess of projected benefit obligation	**6,589**	9,171
Unrecognized net transition asset	**(2,611)**	(2,885)
Unrecognized net gain	**(5,860)**	(8,556)
Unrecognized prior service cost	**479**	1,367
Accrued pension cost	**$ (1,403)**	$ (903)

Assets of the plan are invested primarily in stocks, bonds and money market funds. The amount of assets in excess of projected benefit obligation on May 1, 1985, the date on which FASB Statement No. 87, *Employers' Accounting for Pensions*, (FAS No. 87) was adopted, is being recognized in determining pension expense over 18.5 years. Unrecognized prior service 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 7½% as of May 1, 1994 and 8% as of May 1, 1993. The expected long-term rate of return on plan assets used in determining net pension expense for the years ended July 31, 1994 and July 31, 1993 was 9½%. The assumed rate of increase in future compensation levels was 4¾% and 5½% for the years ended July 31, 1994 and 1993.

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 $466,000 and $412,000 for the years ended July 31, 1994 and 1993.

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 $275,000 and $208,000 for the years ended July 31, 1994 and 1993.

In December 1990, the FASB issued Statement No. 106, *Employers' Accounting for Postretirement 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 9 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 Financial Accounting Standards Board.

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 provides funds for a number of educational activities in the accounting field. These include: scholarships for minority students, the Carey Scholarships, the National Judicial College, programs to enhance the accounting faculty of minority universities and other educational efforts.

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 $2,750,000 for the calendar year 1994.

The ARA also makes a best efforts commitment to raise funds for support of the Governmental Accounting Standards Board (GASB). The commitment is $480,000 for the calendar year 1994. 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, 1994

Balance Sheet	*Private Companies Practice Section*	*SEC Practice Section*
	($000)	
Assets:		
Cash	$ 4	$ 8
Marketable securities at lower of cost or market*	1,678	1,427
	1,682	1,435
Dues and other receivables	51	159
	$ 1,733	$ 1,594
Liabilities and Fund Balances:		
Accounts payable	$ 23	$ 164
Advance dues	363	806
Fund balances	1,347	624
	$ 1,733	$ 1,594
*NOTE: Marketable securities at market	$ 1,694	$ 1,450

Year Ended July 31, 1994

Statement of Changes in Fund Balances	*Private Companies Practice Section*	*SEC Practice Section*
	($000)	
Additions:		
Dues	$ 859	$ 1,818
Gain on sale of securities	19	37
Investment and sundry income	350	51
	1,228	1,906
Deductions:		
Expenses of Public Oversight Board:		
Salaries and fees	—	953
Administrative expenses	—	494
	—	1,447
Peer review manuals	99	63
Membership directory	71	—
Administrative and other expenses	1,156	330
	1,326	1,840
Net increase (decrease) in funds	(98)	66
Fund balances, beginning of year	1,445	558
Fund balances, end of year	$ 1,347	$ 624

Included in administrative and other expenses for the year ended July 31, 1994 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, 1994 and 1993 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.

Produced by the Communications Division of the AICPA

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