1995

AICPA annual report 1994-95; Expanding horizons

American Institute of Certified Public Accountants

Expanding Horizons

AICPA

1994-1995 Annual Report

Contents

The Year in Brief

- AICPA Chair Robert L. Israeloff focuses Institute on listening to and serving members.
- New AICPA President Barry C. Melancon takes office.
- The AICPA announces major national advertising campaign on behalf of the profession.
- The Member Outreach Program is launched, linking every member with an AICPA staff liaison.
- The AICPA introduces the Accountants Forum on CompuServe, a dynamic one-stop service for information and networking.
- A communications audit is conducted to reduce overall mailings to members while providing more of the information members need.
- The AICPA extends phone coverage until 7:30 p.m. EST for improved member service.
- The groundbreaking project to benchmark best practices of the accounting and finance functions of member companies reaches 700 participants.
- A special initiative to identify a new "vision" of the finance function is undertaken by the Management Accounting Executive Committee.
- The House of Representatives and the Senate pass legislation reforming securities litigation.
- The AICPA renews emphasis on solving standards overload, especially as it affects smaller firms.
- The Small Business Tax Flexibility Act of 1995, addressing work load compression issues that CPAs face, is introduced.
- Recognizing the tremendous interest in flat taxes and consumption taxes, a special task force begins actively studying the implications of alternative tax systems.
- Continuing Professional Education (CPE) enters new era with announcement of several initiatives to improve delivery, quality and affordability of programs for members.
- The Special Committee on Assurance Services works to strengthen the attest function and stake out new opportunities for the CPA profession.
- The AICPA combines the Private Companies Practice Section (PCPS) Peer Review Program and the AICPA Quality Review Program to make the AICPA practice-monitoring programs more effective and less confusing to members.
- The first annual Under-35 Symposium is held to assess the needs of this critical membership group and develop programs and services that reflect their concerns.
- The Special Committee on Regulation and Structure of the Profession is created to review the current regulatory environment and structure for CPAs in the face of changing competitive and economic conditions.
- The Uniform CPA Examination undergoes the most significant changes since 1948, when objective, machine-gradable question formats were introduced. In addition to being shortened by a half-day, the Examination has been reorganized and topics realigned. Candidates' writing skills are now tested, and calculators are given to candidates for use on the two accounting and reporting sections.

1994-95 Chair Robert L. Israeloff and President Philip B. Chenok

Message for AICPA Members

The horizons that define the CPA profession are expanding at an astounding pace. Market pressures and technological advances are converging to create new competitors and new expectations for CPAs, wherever they work. The leadership of the American Institute of Certified Public Accountants (AICPA) views this vista not as a field of obstacles to overcome, but as a treasure trove of opportunities that we must seize.

Throughout the year, we worked to strengthen our partnership with the state CPA societies to effectively address the diverse challenges confronting the accounting profession and advance the interests of our members. Joint planning programs included the identification of issues and trends of potential concern to the Institute and state CPA societies, "future mapping" initiatives and a strategic planning survey on members' needs and expectations.

With the members, state CPA societies and AICPA working together, our profession can emerge from these complex times stronger and more relevant to all the constituents we serve.

Your Advocate in the Nation's Capitals

In recent years, the accounting profession has made significant political progress, largely due to the efforts of the AICPA and state CPA societies to put CPAs in contact with their members of Congress. Through our Key Person Program, CPAs across the country are becoming more politically active and helping us keep our message in front of legislators in Washington, D.C., as well as in the state capitals.

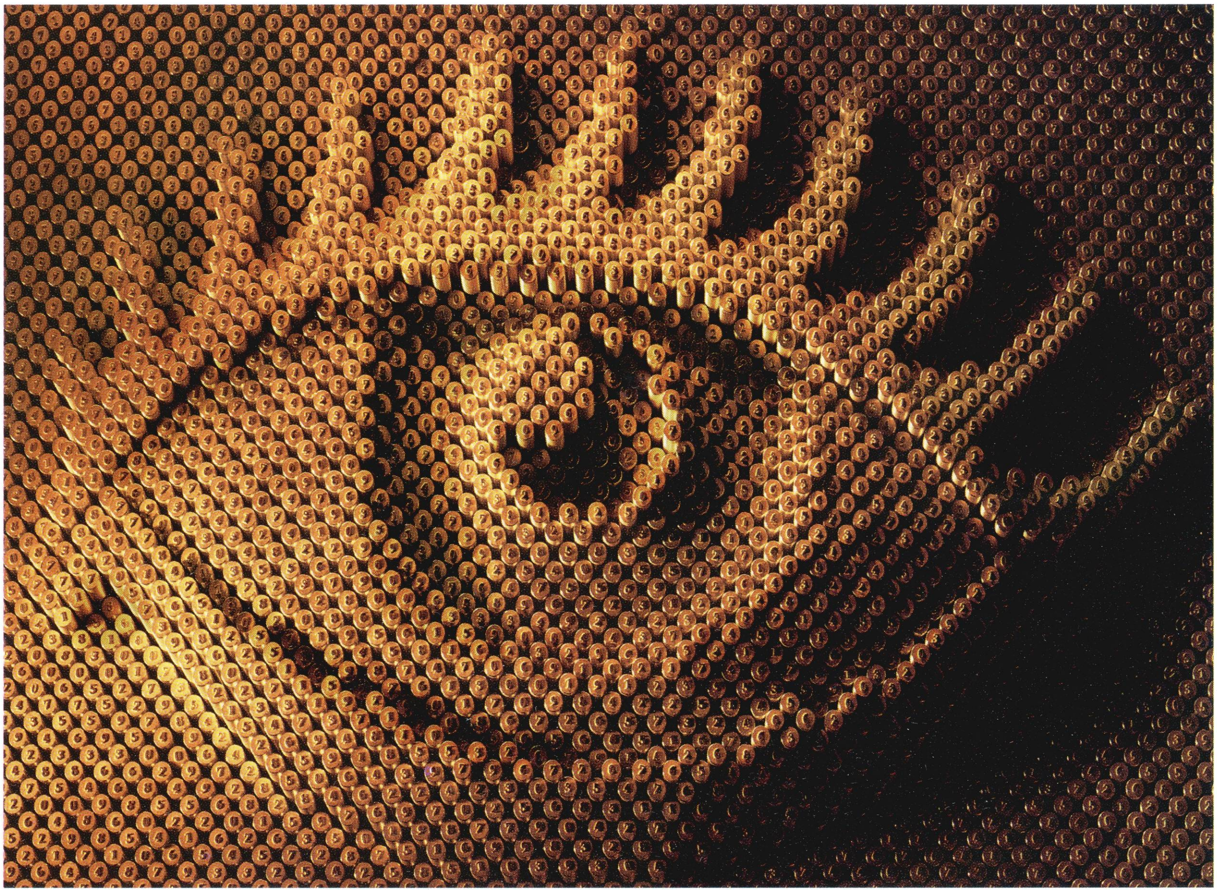
They were instrumental in our efforts to correct the work load compression that forces many CPAs to do a year's worth of work in three months or less. Fortunately, legislators are starting to recognize the unfairness to the profession and the potential problem for clients who have needs other than tax preparation during this crunch period. Rep. E. Clay Shaw (R-FL) has introduced H.R. 1661, the Small Business Tax Flexibility Act of 1995. The AICPA is aggressively seeking enactment of this bill.

Determined legislative tactics paid off in another hard-earned victory when both the House of Representatives and the Senate passed legislation reforming securities litigation. These votes represented a positive step for the accounting profession and others advocating reform of how the nation's securities class-action suits are conducted. The bill will help protect CPAs from becoming peripheral defendants in meritless shareholder suits and will establish proportionate liability except in cases where defendants knowingly engage in securities fraud.

Contributing to our momentum on the Hill has been the AICPA's political action committee (PAC). PACs provide a means for individuals to deliver a focused message to candidates. In the November 1994 federal elections, the AICPA spoke on behalf of the accounting profession through its PAC and racked up an impressive 88-percent win rate. The AICPA enhanced the effectiveness of its $1.9 million in PAC contributions by having CPAs or state CPA society representatives deliver the donations directly to candidates in their home states.

Without question, we have demonstrated to Congress that the accounting profession is a force to be reckoned with.

A CPA CAN SEE MORE IN NUMBERS THAN JUST NUMBERS. (APPARENTLY, THE EYE IS THE WINDOW TO MORE THAN JUST THE SOUL.)



In every number, there is a question. Is your retirement plan the best it could be? What will be the impact of your company's merger with another? Where will you find the capital you need? But without the vision to see the true meaning within the numbers, the answers can remain frustratingly obscured. A CPA can provide the financial insights so crucial to everything from retirement planning to evaluating prospective mergers and ferreting out re-engineering opportunities.

You see numbers. We see opportunities.

CPA

THE CPA. NEVER UNDERESTIMATE THE VALUE.

Print Advertisement from the AICPA Image-Enhancement Campaign

Enhancing the Image of CPAs

With the approval of a $3 million image-enhancement campaign beginning in October 1995, the AICPA is taking the lead in positioning CPAs as multi-faceted, multi-talented business advisors, whose expertise extends well beyond the traditional fields of tax and auditing.

The anticipation and excitement that this campaign has generated is enormous. The cornerstone of the stereotype-breaking campaign is the tagline: "The CPA. Never Underestimate The Value." Developed by Hill, Holliday, one of the nation's leading advertising agencies, the advertising campaign uses contemporary graphic and verbal devices to depict CPAs as experts in all aspects of financial and business advice. The campaign will target key decision-makers in business through placements in national publications and broadcast media. Three-quarters of the state CPA societies are expected to join in the campaign's first-year launch through a variety of print, radio, cable and direct-mail initiatives.

It is our firm belief that this campaign, which was developed in direct response to member feedback, will enhance the image of our profession and make us all prouder of our hard-earned CPA designation.

Protecting Our Professionalism

Of crucial importance to our profession is a case pending in the Florida courts in which the Institute has taken a highly pro-active stance. The AICPA backs the state of Florida's position (which is the position of 40 states) mandating that those practicing public accountancy do so in firms primarily owned by CPAs. In a lawsuit against the Florida Board of Accountancy, IDS Financial Services (now named American Express Tax and Business Services) claims this statute violates their free-speech rights because they cannot promote their CPA employees as CPAs.

The consequences of this case are enormous, cutting right to the heart of our professionalism. The AICPA believes that Florida's regulations are indeed constitutional because they protect the public interest. What's more, the Institute staunchly opposes professional designation by a company that is not fully versed in CPA services, and whose motivation for entrance into CPA services is primarily to sell products for commission.

We intend to monitor this case closely and to continue to speak out against any actions that undermine either the perception or the reality of our professionalism.

Reaching Out to Members

During the past year, we undertook a variety of initiatives to ensure that CPAs of all ages would receive the professional benefits and advantages they require under the Institute's expanding umbrella. The most expansive initiative has been the Member Outreach Program. Within 10 months, AICPA staff liaisons placed more than 100,000 calls and responded to more than 2,200 requests for assistance from members.

Advocacy for local firms continues to be a paramount AICPA concern. A new committee, called the Small Firm Advocacy Committee, was created to represent the particular interests of those CPA firms with 10 or fewer professional staff members.

Providing relevant, timely information to the small, private company on a cost-effective basis is one of the key objectives of members in practice. However, letters to the AICPA and focus groups have indicated that existing standards make achieving that objective difficult. The problem is being tackled on two fronts.

First, the Accounting and Review Services Committee has published an exposure draft patterned on the existing standards for forecasts and projections. It defines the assembly of financial statements and provides an optional exemption from existing compilation standards for CPAs who have a written understanding with a private-company client to submit assembled financial statements to that client for internal use only. Second, a special task force of the Private Companies Practice Section has begun to consider the broader question of accounting standards overload as it relates to both GAAP financial statements and those prepared on other comprehensive bases of accounting.

Another sign that we are intent on reaching out to members is the Institute's decision to embark on a course to understand more fully the needs and requirements of our members under the age of 35, who presently comprise 29 percent of the Institute's membership. To that end, we hosted an Under-35 Symposium in July. We will use the findings from this forum to shape a services package that will be specifically designed to attract and maintain younger CPAs as active, vital participants in the Institute.

We also have a responsibility as a professional association to help bring younger people from all ethnic groups into the profession. During the past year, we successfully enhanced and expanded Partnerships for Success, a mentor program for recipients of AICPA scholarships. The program is a joint effort of the AICPA and 14 participating state CPA societies. The Minority Initiatives Committee will pursue other areas where it can work collaboratively with the state CPA societies in the future.

Harnessing Technology

The Institute is a firm advocate of putting technological advantages to work for members. The last year saw us making major strides in technology-based services.

In June, we went live with the Accountants Forum, which significantly expands our capabilities to members. Available on CompuServe, it is a dynamic one-stop service for information and networking that offers bulletin boards, newsletters, exposure drafts, listings of CPE publications and courses offered by both the Institute and state CPA societies, and gateways to FedWorld on the Internet. On the horizon is further expansion of these services.

We also are using technology to make ourselves more efficient as a professional association. We completed a communications audit of promotional and direct-mail material sent to members. As a result, the Institute will develop a fully integrated database of demographic information on members. This centralized database will enable us to target mailings better so that members get less mail overall, but more of the mail they need. Along with innovations resulting from the audit, the database is expected to reduce current total mail volume by five million pieces and produce substantial savings during the next two years.

Technological advances in CD-ROM tax research and telephone services also enabled us to develop the Tax Information Phone Service (TIPS). TIPS will provide technical assistance on tax questions through a "900" telephone number staffed by experienced tax practitioners. The first two years of the program will be on a pilot basis, available to Tax Section members and PCPS firms, with the intention of offering the service to all members after the conclusion of the pilot program.

Extending the Profession's Borders

Collectively and individually, we must be ready to accept our biggest competitive challenge: the need to change.

The Institute has undertaken a number of initiatives to enable the profession to deliver the services that will be valued next month, next year and 10 years from now. These initiatives include follow-up on the work of the Special Committee on Financial Reporting, and the establishment of the Special Committee on Assurance Services. The latter committee was appointed to reinvigorate the attest function and stake out new economic space for the CPA profession. During the year, the committee undertook research to identify users' emerging and latent needs for information and assurance. It analyzed economic, technological, social and political trends, and interviewed a wide range of information users. Current plans call for the committee to identify new services in the next phase of its work and make a final report at the fall 1996 AICPA Council meeting.

We also are issuing a wake-up call to those parties involved in management accounting. The message: We must begin exploring ways to reshape the finance function so that it better fills the needs of the business community of the 21st century. At the same time, a special benchmarking project is under way to define best practices as they exist right now. The project provides valuable information for any organization interested in reengineering its finance function.

One of the most fundamental issues facing our profession is how we regulate and structure ourselves in practice. And clearly the activities of American Express Tax and Business Services have caused us to examine anew the structure of our profession. For this reason, the Institute established the Special Committee on Regulation and Structure of the Profession. We are confident that this special committee will provide us with critical feedback and direction over the next few years.

A New Era Begins

For the first time in 15 years, the Institute begins the fiscal year with a new president at the helm. Barry C. Melancon, the AICPA's youngest president in history, brings a personal and professional dynamism that will be a driving force behind translating existing and future initiatives into reality. Barry will undoubtedly carry the Institute's already impressive record of achievements to even greater heights.

As outgoing Chair and President, we let go of the reins with gratitude to the Institute's members and staff, and with delight at the opportunity to serve the Institute in new and different ways. Bolder and more aggressive than ever before, the AICPA, state CPA societies and member volunteers are building new alliances, new solutions and new perspectives on the critical issues confronting today's CPAs.

Robert L. Israeloff

Robert L. Israeloff
Chair of the Board

Philip B. Chenok

Philip B. Chenok
President (through June 30, 1995)

New AICPA President, Barry C. Melancon

President's Message

There are broad horizons of opportunity that exist today for our membership, our profession and our organization. I see a future of change that will honor our past and solidify the standards that define our work. But, first and foremost, we at the AICPA must look to you, our members, for direction. I want our members to see the AICPA as a resource of first resort. To accomplish this, we need to stay on top of what members want and respond expeditiously.

Members should be able to conduct "one-stop shopping" for all AICPA services through a special member service group. This is one of my priorities for the coming year. We also plan to capitalize on the collective power and capabilities of the state CPA societies and the Institute to provide you, the member, with greater value for your dues dollars.

To maximize member service, we must take hold of technology, the most powerful bridge to our membership. We must use technology to improve the quality, timeliness and cost-effectiveness of our services, to communicate with our members and state CPA societies, and to help members implement technology in their own work environments. We must use technology to manage — not contribute to — information overload.

We already are working to develop a sophisticated database containing information about members that will enable us to categorize and personalize services to meet members' unique, individual needs.

We also must be vigilant about protecting our professionalism. We need to be active in repositioning and crystallizing the role of the CPA in the world of business and in enhancing our public image. We should, in short, demonstrate the tagline for our national advertising campaign: "The CPA. Never Underestimate The Value."

"Never fear change" is a concept I live by. And it's a concept that must drive the Institute and the profession as we incorporate new technology and adapt to an ever-changing business environment.

Working together, we can serve the interests of the accounting profession as only a national professional organization can — and we will do so to the fullest extent possible. Nothing less will do.

Barry C. Melancon

President & CEO

Sources and Occupations of AICPA Membership

	1983	1985	1987	1989	1991	1993	1995
Total AICPA Membership	201,764	231,333	254,910	286,358	301,410	314,427	323,779
Public Accounting	53.0%	51.0%	47.6%	45.8%	43.2%	42.2%	40.7%
Business & Industry	36.9%	38.8%	39.5%	39.9%	40.7%	40.3%	41.7%
Education	2.7%	2.7%	2.8%	2.7%	2.8%	2.3%	2.4%
Government	3.3%	3.3%	3.4%	3.7%	3.9%	4.3%	4.4%
Retired & Miscellaneous	4.1%	4.2%	6.7%	7.9%	9.4%	10.9%	10.8%
Membership in Public Practice	106,870	117,850	121,349	131,014	130,078	132,821	131,887
Firms with one member	22.6%	23.9%	25.6%	23.8%	24.1%	23.2%	23.2%
Firms with 2–9 members	34.0%	33.7%	34.0%	33.8%	35.2%	35.8%	36.5%
Firms with 10 or more members, except the	15.0%	15.1%	15.5%	17.3%	18.8%	20.0%	20.4%
25 largest firms	28.4%	27.3%	24.9%	25.1%	21.9%	21.0%	19.9%

Management's Discussion and Analysis

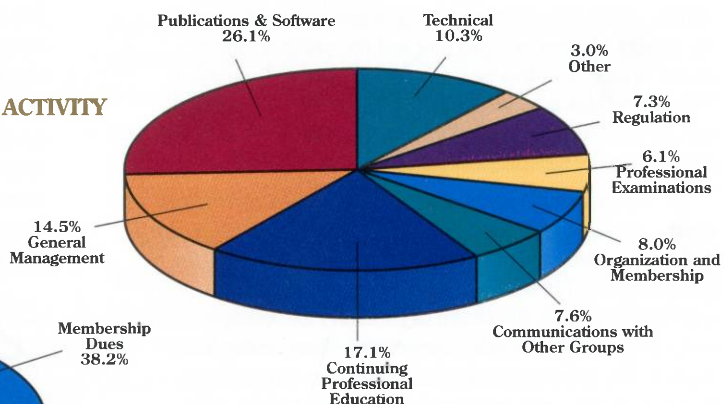
Revenue exceeded expenses by $6.3 million in the current year, which was $3.0 million greater than the prior year. This favorable result exceeded the 1994-95 budget by $3.3 million. The Board of Directors has established as a goal the building up of the fund balances over a period of years to an amount equal to 20-25% of annual revenue. The fund balance is now $22.9 million or 17.8% of annual revenue.

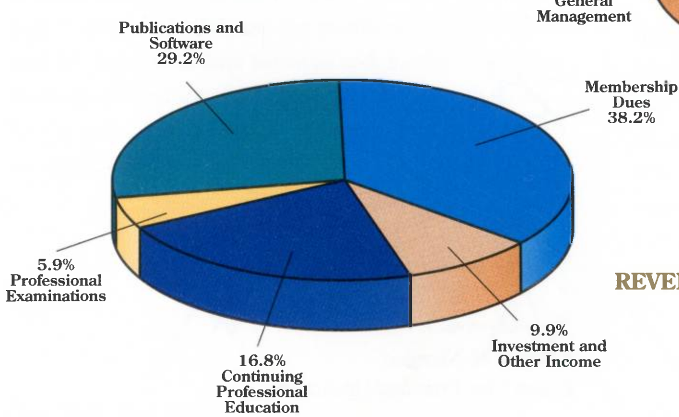
Revenue increased to $128.1 million or $6.8 million more than the prior year. Dues revenue of $48.9 million was higher than last year, primarily as a result of an authorized 5% overall rate increase. Publications and software revenue increased by $2.6 million. A $1.2 million increase in investment and sundry income was largely due to improved investment earnings and the success of the Institute's affinity programs.

Expenses were $121.8 million or $3.9 million higher than the prior year. Salaries and personnel costs of $43.8 million approximated 36.0% of the Institute's operating expenses in 1994-95. The comparable cost in 1993-94 was $43.0 million or 36.5% of operating expenses. At July 31, 1995, the Institute staff included 676 positions, a reduction of 3% from the prior fiscal year. Cost savings from staff reductions were offset by normal merit increases of 4%. Promotions and advertising costs increased by $1.4 million due to the national advertising and recruiting campaigns for the profession. Professional services increased by $1.1 million. This increase is due to the use of consultants for several important initiatives including the Special Committee on Assurance Services, work load compression, recruitment of senior executive staff, and special studies which required the work of actuaries.

Total cash and marketable securities at July 31, 1995 were $51.2 million, an increase of $4.1 million over the prior year. The increase was mostly attributable to cash flow from operations of $13.4 million offset by capital additions of $8.5 million and the repayment of long-term borrowings of $1.3 million. The capital additions were largely the result of the relocation of additional Institute operations to Jersey City, New Jersey, which is expected to generate future occupancy cost savings.

EXPENSE BY ACTIVITY





REVENUE BY SOURCE

Management's Responsibilities for Financial Statements and the Internal Control System

FINANCIAL STATEMENTS

The 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 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, 1995, 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.

Barry C. Melancon
President & CEO

Edward W. Niemiec
Group Vice President-Operations

Reports 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, 1995 and 1994, 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, 1995 and 1994, 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, 1995 and 1994, 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 1, 1995

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, 1995 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, 1995 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 1, 1995

Financial Statements
July 31, 1995 and 1994

American Institute of Certified Public Accountants

Balance Sheets
July 31

	1995	1994
	($000)	
Assets:		
Cash	$ 140	$ 113
Marketable securities	51,021	46,973
Accounts receivable (less an allowance for doubtful accounts: 1995, $784,000; 1994, $825,000)	9,489	9,777
Inventories	2,283	2,965
Deferred costs and prepaid expenses	3,886	4,725
Furniture, equipment and leasehold improvements, net	21,919	16,395
	88,738	80,948
Funds held for Division for CPA Firms	3,019	3,105
	$91,757	$84,053
Liabilities and Fund Balances:		
Liabilities and deferred revenue:		
Accounts payable and other liabilities	$16,748	$15,035
Advance dues	23,526	24,271
Unearned revenue from subscriptions and other sources	8,814	9,100
Long-term debt	4,000	5,300
Deferred rent	12,789	10,718
	65,877	64,424
Funds held for Division for CPA Firms	3,019	3,105
General fund balances	22,861	16,524
	$91,757	$84,053

American Institute of Certified Public Accountants

Statements of Changes in Fund Balances
Year Ended July 31

	1995	1994
	($000)	
General Fund:		
Fund balances, beginning of year	$16,524	$13,147
Excess of revenue over expenses	6,337	3,377
Fund balances, end of year	$22,861	$16,524

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

	1995	1994
	($000)	
Revenue:		
Dues	$ 48,926	$ 45,471
Publications and software	37,434	34,817
Continuing professional education	21,507	21,551
Investment and sundry income	9,248	8,074
Professional examinations	7,547	7,871
Conferences	3,430	3,478
	128,092	121,262
Expenses (see also Summary of Expenses by Activity):		
Salaries	35,673	34,883
Cost of sales	23,157	23,467
Occupancy	13,885	14,104
Personnel costs	8,150	8,108
Postage and shipping	6,581	6,158
Meetings and travel	6,442	6,141
Printing and paper	4,859	4,192
Professional services	4,695	3,571
Promotions and advertising	4,464	3,090
Commercial services	2,596	2,793
Telephone	1,649	1,675
Support for professional organizations	1,365	1,416
Equipment rental and maintenance	1,166	1,317
Office and computer supplies	1,165	1,096
Mailing services	1,013	778
Fees	924	837
Software costs—in-house applications	920	1,192
Taxes	769	758
Interest	288	288
Other	1,994	2,021
	121,755	117,885
Excess of revenue over expenses	$ 6,337	$ 3,377

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

	1995		1994
		($000)	
Professional examinations	$ 7,418		$ 7,304
Publications and software:			
Produced for sale	27,418		27,480
Distributed to members and others	4,390		3,831
Continuing professional education	20,816		21,562
Conferences	2,928		2,802
Technical:			
Accounting and review services	109		37
Accounting standards	1,262		1,358
Auditing standards	1,632		1,672
Audit and accounting guides	463		494
Federal taxation	2,848		2,959
Personal financial planning	715		841
Management consulting services	747		708
Information technology	416		325
International practice	584		648
Technical assistance to members	1,027		1,117
Library	1,820		1,611
NAARS program	269		378
Financial Accounting Foundation support	638		629
Regulation:			
Ethics and trial board	2,091		1,876
State legislation	924		729
Division for CPA Firms	1,179		1,128
Peer review programs	4,699		5,325
Organization and membership:			
Board, council and annual meetings	2,493		2,050
Nominations and committee appointments	344		191
Communications with members	593		408
Membership services	4,322		4,142
Special studies	1,938		1,450
Communications with other groups:			
Public relations	2,850		1,553
State societies	609		498
Universities	1,585		1,614
Federal government	4,252		4,359
Women and family issues	164		298
Assistance programs for minority students	609		610
General management	17,603		15,898
	$121,755		$117,885

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

Increase (Decrease) in Cash:

	1995	1994
	($000)	
Operating Activities:		
Cash received from members and customers	$124,281	$ 122,926
Interest and dividends received	2,331	1,265
Cash paid to suppliers and employees	(112,810)	(104,917)
Interest paid	(290)	(293)
Income taxes paid	(144)	(549)
Net cash provided by operating activities	13,368	18,432
Investing Activities:		
Payments for purchase of equipment	(8,535)	(2,418)
Payments for purchase of marketable securities	(70,079)	(84,897)
Proceeds from sale of marketable securities	66,573	70,077
Net cash used in investing activities	(12,041)	(17,238)
Financing Activities—payments of long-term borrowings	(1,300)	(1,200)
Net increase (decrease) in cash	27	(6)
Cash, beginning of year	113	119
Cash, end of year	$ 140	$ 113

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

	1995	1994
Excess of revenue over expenses	$ 6,337	$ 3,377
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:		
Depreciation and amortization	3,931	4,062
Gain on sale of marketable securities	(542)	(626)
Amortization of subscription revenue	(232)	(227)
Provision for:		
Losses on accounts receivable	195	420
Obsolete inventories	732	779
Deferred rent	1,781	4,069
Pension expense	725	500
Changes in operating assets and liabilities:		
Accounts receivable	93	631
Inventories	(50)	53
Deferred costs and prepaid expenses	(80)	(781)
Accounts payable and other liabilities	987	3,062
Advance dues	(745)	2,283
Unearned revenue from subscriptions and other sources	(54)	868
Deferred rent	290	(38)
Total adjustments	7,031	15,055
Net cash provided by operating activities	$ 13,368	$ 18,432

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

Related Organizations

Balance Sheets July 31

	American Institute of Certified Public Accountants Foundation		AICPA Benevolent Fund, Inc.		Accounting Research Association, Inc.	
	1995	1994	**1995**	1994	**1995**	1994
	($000)		($000)		($000)	
Assets:						
Cash	**$ 5**	$ 5	**$ 8**	$ 5	**$ 2**	$ 2
Marketable securities at cost*	**2,559**	2,266	**1,515**	1,322	**1,276**	1,201
Notes and mortgages receivable (less an allowance for doubtful collections: 1995, $101,000; 1994, $85,000)			**482**	449		
Dues and other receivables	**225**	16	**10**	12	**1,239**	1,374
Due from Institute	**198**	651	**219**	203	**1**	1
	$2,987	$2,938	**$2,234**	$1,991	**$2,518**	$2,578
Liabilities and Fund Balances:						
Liabilities and deferred revenue:						
Accounts payable	**$ 139**	$ 51			**$ 311**	$ 305
Advance contributions/dues	**173**	151	**$ 195**	$ 166	**1,371**	1,398
Scholarships payable	**558**	489				
	870	691	**195**	166	**1,682**	1,703
Fund balances:						
General	**139**	247	**2,039**	1,825	**836**	875
Library	**253**	292				
Library Endowment Fund	**648**	648				
John L. Carey Scholarship Fund	**526**	506				
Education Fund for Minority Accounting Students	**529**	533				
E.W. Sells Award Fund	**21**	20				
Sydney Orbach Fund	**1**	1				
	2,117	2,247	**2,039**	1,825	**836**	875
	$2,987	$2,938	**$2,234**	$1,991	**$2,518**	$2,578
*Marketable securities at market	**$2,606**	$2,285	**$1,667**	$1,364	**$1,343**	$1,222

Related Organizations

Statements of Changes in Fund Balances—Year Ended July 31

	American Institute of Certified Public Accountants Foundation		AICPA Benevolent Fund, Inc.		Accounting Research Association, Inc.	
	1995	1994	**1995**	1994	**1995**	1994
	($000)		($000)		($000)	
Additions:						
Contributions/dues	**$ 662**	$ 765	**$ 423**	$ 433	**$3,463**	$3,506
Contributions from Institute	**300**	350	**25**	37		
Investment and sundry income	**128**	77	**73**	59	**78**	54
Gain on sale of securities	**9**	22	**27**	69	**13**	42
	1,099	1,214	**548**	598	**3,554**	3,602
Deductions:						
Support/scholarships	**1,212**	869			**3,307**	3,148
Assistance to members and families			**293**	283		
FASB subscription service					**153**	167
Other	**17**	8	**41**	69	**133**	141
	1,229	877	**334**	352	**3,593**	3,456
Increase (decrease) in fund balances	**(130)**	337	**214**	246	**(39)**	146
Fund balances, beginning of year	**2,247**	1,910	**1,825**	1,579	**875**	729
Fund balances, end of year	**$2,117**	$2,247	**$2,039**	$1,825	**$ 836**	$ 875

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

Summary of Accounting Policies

The 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.

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:

- 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 include 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, 1995, 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 statements 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 deferred and amortized on the straight-line method over a five-year period that begins when the system becomes operational.
- Costs of promotions and advertising are expensed as incurred.
- Research and development costs related to software development are expensed as incurred. Software development costs are capitalized when project technological feasibility is established. Capitalized software costs are amortized by the greater of (a) the ratio that current gross revenue for a product bears to the total of current and anticipated future gross revenue for that product or (b) the straight-line method over the remaining estimated economic life of the product. Amortization begins when the product is ready for release.
- 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.
- Certain accounts for 1994 were reclassified to conform to the 1995 presentation.

Notes to Financial Statements
July 31, 1995 and 1994

1. Marketable Securities

Marketable securities, at cost, consist of:

	1995	1994
	($000)	
U.S. Treasury bonds and notes	$12,710	$17,168
Bonds, notes and funds	25,880	22,947
Equities	12,431	6,858
	$51,021	$46,973
Market value	$53,769	$47,303

2. Inventories

Inventories consist of:

	1995	1994
	($000)	
Paper and material stock	$ 579	$ 612
Publications in process	713	896
Printed publications and course material	991	1,457
	$ 2,283	$ 2,965

3. Depreciation and Amortization

Furniture, equipment and leasehold improvements consist of:

	1995	1994
	($000)	
Furniture and equipment	$19,152	$16,164
Leasehold improvements	13,881	9,689
	33,033	25,853
Less accumulated depreciation and amortization	11,114	9,458
	$21,919	$16,395

Depreciation of furniture and equipment and amortization of leasehold improvements for the years ended July 31, 1995 and 1994 were $3,011,000 and $2,870,000. Amortization of the costs of internal computer systems for the years ended July 31, 1995 and 1994 were $920,000 and $1,192,000.

4. Long-Term Debt

Long-term debt consists of the following notes payable:

	1995	1994
	($000)	
Bankers Trust Company (A)	$2,500	$3,500
NJ Urban Development Corporation (B)	1,200	1,200
National Westminster Bank (C)	300	600
	$4,000	$5,300

(A) The note is payable in semi-annual installments through October 1, 1997 with interest, payable monthly, at either the prime or LIBOR rate plus 1.25% (7.4% at July 31, 1995). Secured by marketable securities with a book value of $9,373,000.

(B) The note bears interest at 5%, payable monthly, through February 15, 2013, when the entire principal balance is due. Secured by equipment with a net book value of $1,280,000.

(C) The note is payable in annual installments through August 15, 1995 with interest, payable quarterly, at 6%. Secured by equipment with a net book value of $821,000.

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

5. Lease Commitments

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 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 $13,099,000 and $10,718,000 as of July 31, 1995 and 1994.

Minimum rental commitments on noncancellable real estate and equipment leases in effect as of July 31, 1995 are:

Year Ending July 31

($000)	
1996	$ 7,769
1997	7,491
1998	8,245
1999	8,103
2000	8,088
Years subsequent to 2000	88,442
	$128,138

Rental expense for the years ended July 31, 1995 and 1994 was $11,525,000 and $11,882,000.

6. Retirement Plans

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.

The components of the net pension expense for the years ended July 31 were:

	1995	1994
	($000)	
Service cost — benefits earned during the year	**$ 1,619**	$ 1,479
Interest cost on projected benefit obligation	**1,998**	1,882
Return on plan assets:		
Actual	**(3,480)**	(1,546)
Deferred	**794**	(1,118)
Net amortization of unrecognized net asset	**(274)**	(274)
Net amortization of unrecognized prior service cost and net loss	**68**	77
	$ 725	$ 500

Funded status of the plan:

May 1

	1995	1994
	($000)	
Actuarial present value of projected benefit obligation, based on employment service to date and current salary levels:		
Vested benefits	**$ (23,666)**	$(20,925)
Non-vested benefits	**(1,450)**	(1,604)
Additional amounts related to projected salary increases	**(4,807)**	(4,675)
Projected benefit obligation	**(29,923)**	(27,204)
Plan assets available for benefits, at fair value	**36,156**	33,793
Plan assets in excess of projected benefit obligation	**6,233**	6,589
Unrecognized net transition asset	**(2,337)**	(2,611)
Unrecognized net gain	**(7,169)**	(5,860)
Unrecognized prior service cost	**1,145**	479
Accrued pension cost	**$ (2,128)**	$ (1,403)

Assets of the plan are invested primarily in stocks, U.S. government and agency securities, asset and mortgage-backed securities, bonds and cash equivalents.

Net transition amounts and prior service costs are being amortized over periods ranging from 11 to 18.5 years. Benefits are valued based upon the projected unit credit cost method.

The discount rate used to determine the actuarial present value of the projected benefit obligation was 7¾% and 7½% as of May 1, 1995 and 1994. The expected long-term rate of return on plan assets used in determining net pension expense was 9% and 9½% for the years ended July 31, 1995 and 1994. The assumed rate of increase in future compensation levels was 4¾% for the years ended July 31, 1995 and 1994.

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 $495,000 and $466,000 for the years ended July 31, 1995 and 1994.

7. Health Care and Life Insurance Plans

The Institute sponsors employee postretirement health care and life insurance plans and contributes toward the annual cost of retirees remaining in these plans. Expense for these plans, recognized on the cash basis, was $242,000 and $275,000 for the years ended July 31, 1995 and 1994.

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 will elect to record the cumulative effect of the accounting change on a deferred basis as part of future annual benefit costs.

Based on the analyses to date, the Institute believes the adoption of FAS No. 106 could result in a charge to expense of approximately $1,200,000 in fiscal 1996.

8. Support for the Financial Accounting Foundation (FAF)

The Institute makes an annual contribution of $2.00 per member to the FAF to support the work of the FASB.

9. Related Organization Funds

The purposes of the related organization funds are:

Foundation:

The Foundation advances the profession of accountancy and develops and improves accountancy education by providing 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.

Benevolent Fund:

The Benevolent Fund provides financial assistance to needy members of the Institute and their families.

Accounting Research Association (ARA):

The ARA makes an annual best efforts commitment to raise funds for the FASB from sources within the accounting profession. The commitment is $2,750,000 for the calendar year 1995. The ARA also makes a best efforts commitment to raise funds for support of the GASB. The commitment is $480,000 for the calendar year 1995. It is anticipated the ARA will continue to support the FASB and GASB.

10. Division for CPA Firms

The Institute acts as custodian of the 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 sheets and statements of changes in fund balances, on the accrual basis, were:

July 31, 1995

Balance Sheets	*Private Companies Practice Section*	*SEC Practice Section*
	($000)	
Assets:		
Cash	$ 5	$ 5
Marketable securities at cost*	1,630	1,389
Dues and other receivables	45	135
	$ 1,680	$ 1,529
Liabilities and Fund Balances:		
Accounts payable	$ 70	$ 212
Advance dues	369	846
Fund balances	1,241	471
	$ 1,680	$ 1,529
*Marketable securities at market	$ 1,672	$ 1,435

Year Ended July 31, 1995

Statements of Changes in Fund Balances	*Private Companies Practice Section*	*SEC Practice Section*
	($000)	
Additions:		
Dues	$ 887	$ 1,914
Gain on sale of securities	7	8
Investment and sundry income	393	68
	1,287	1,990
Deductions:		
Expenses of Public Oversight Board:		
Salaries and fees		1,086
Administrative expenses		617
		1,703
Administrative and other expenses	1,393	440
	1,393	2,143
Net decrease in funds	(106)	(153)
Fund balances, beginning of year	1,347	624
Fund balances, end of year	$ 1,241	$ 471

Included in administrative and other expenses for the year ended July 31, 1995 are reimbursements to the Institute, in connection with peer 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, 1995 and 1994 in support of the Division and in connection with related peer review programs. These expenses are included in the accompanying Summary of Expenses by Activity.

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