

1996

# AICPA annual report 1995-96; Making change a way of business

American Institute of Certified Public Accountants

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# **MAKING CHANGE A WAY OF BUSINESS**

**1995 - 1996  
Annual Report**

A large, stylized graphic of the letters 'AICPA' in a bold, sans-serif font. The letters are white and are set within a light blue, rounded rectangular frame that is tilted diagonally across the page. The background of the entire cover is a dark blue gradient.

**AICPA**

**American Institute of Certified Public Accountants**

## **MAJOR PROGRAMS:**

The Institute:

- Undertakes recruitment efforts to attract highly qualified individuals into the profession and position the profession as offering diversity in work and career paths.
- Represents the profession nationally in dealing with rule-making, standard-setting and legislative bodies, public interest groups, state CPA societies and other professional organizations.
- Promotes outstanding academic programs, emphasizes teaching quality and undertakes minority educational initiatives.
- Prepares and grades the Uniform CPA Examination and encourages efforts to adopt uniform, high-level requirements governing the issuance of the CPA certificate.
- Supports the enactment of the 150-hour educational requirement as a prerequisite to licensing, and pursues efforts at international reciprocity.
- Promulgates standards, set requirements for, and assists members in the continuous improvement of professional and ethical conduct, performance and expertise.
- Develops measures to continually improve the financial reporting system and detect fraud.
- Evaluates international, national and local issues and trends, tracks and analyzes threats and opportunities for the profession, and provides a systematic and updated plan for the future of the Institute and profession.
- Operates comprehensive Continuing Professional Education (CPE) programs for CPAs.
- Undertakes a proactive communications program to inform regulators, legislators, the public, and others of the varied roles and high-quality functions of CPAs in society.

## **INTERNATIONAL ACTIVITIES:**

The AICPA is a charter member of the International Federation of Accountants whose goal is to achieve uniform accounting and auditing standards throughout the world.

## **LEADERSHIP:**

The Chair of the AICPA Board of Directors is elected annually from the membership and serves a one-year term. The Chair for 1996-97 is Robert Mednick of Chicago, IL. For 1997-98, the chair-nominee is Stuart Kessler of New York, NY.

Barry C. Melancon, CPA, is President and Chief Executive Officer of the AICPA. He provides overall direction of the Institute's activities in New York, Washington, DC and Jersey City, NJ. John E. Hunnicutt is Senior Vice President-Public Affairs and heads the Washington, DC office.

The AICPA Board of Directors acts as the executive committee for the governing Council. The Council is made up of elected and appointed members from each of the 50 states, plus the District of Columbia, Puerto Rico, the Virgin Islands and Guam.

## **OFFICERS 1995-96:**

**Robert Mednick, Chair.** . . Arthur Andersen, L.L.P., 69 W. Washington Street, Chicago, IL 60602-3094 (312) 507-2235

**Stuart Kessler, Vice Chair.** . . Goldstein, Golub, Kessler & Company, P.C., 1185 Avenue of the Americas, New York, NY 10036-2602 (212) 372-1304.

**Barry C. Melancon, President and CEO.** . . American Institute of CPAs, 1211 Avenue of the Americas, New York, NY 10036-8775 (212) 596-6001

**Richard I. Miller, General Counsel/Secretary.** . . American Institute of CPAs, 1211 Avenue of the Americas, New York, NY 10036-8775 (212) 596-6245

**Frank J. Katusak, Executive Administrator to the President.** . . American Institute of CPAs, 1211 Avenue of the Americas, New York, NY 10036-8775 (212) 596-6130

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**HISTORY:**

The American Institute of Certified Public Accountants (AICPA) was founded in 1887. This significant milestone established accountancy as a profession distinguished by rigorous educational requirements, high professional standards, a strict code of professional ethics, a licensing status, and a commitment to serving the public interest.

The AICPA is the national professional organization of certified public accountants in the United States. The Institute currently numbers more than 328,000 members in public practice, industry, government and education. The AICPA maintains three offices and a total staff of 700 which includes a national headquarters in New York City and offices in Washington, DC, and Jersey City, NJ.

**MISSION STATEMENT:**

The American Institute of Certified Public Accountants is the national, professional organization for all Certified Public Accountants. Its mission is to provide members with the resources, information, and leadership that enable them to provide valuable services in the highest professional manner to benefit the public as well as employers and clients.

In fulfilling its mission, the AICPA works with state CPA organizations and gives priority to those areas where public reliance on CPA skills is most significant.

**OBJECTIVES:**

To achieve its mission, the Institute:

**Advocacy**

- Serves as the national representative of CPAs before governments, regulatory bodies and other organizations in protecting and promoting members' interests.

**Certification and Licensing**

- Seeks the highest possible level of uniform certification and licensing standards and promotes and protects the CPA designation.

**Communications**

- Promotes public awareness and confidence in the integrity, objectivity, competence and professionalism of CPAs and monitors the needs and views of CPAs.

**Recruiting and Education**

- Encourages highly qualified individuals to become CPAs and supports the development of outstanding academic programs.

**Standards and Performance**

- Establishes professional standards; assists members in continually improving their professional conduct, performance, and expertise; and monitors such performance to enforce current standards and requirements.

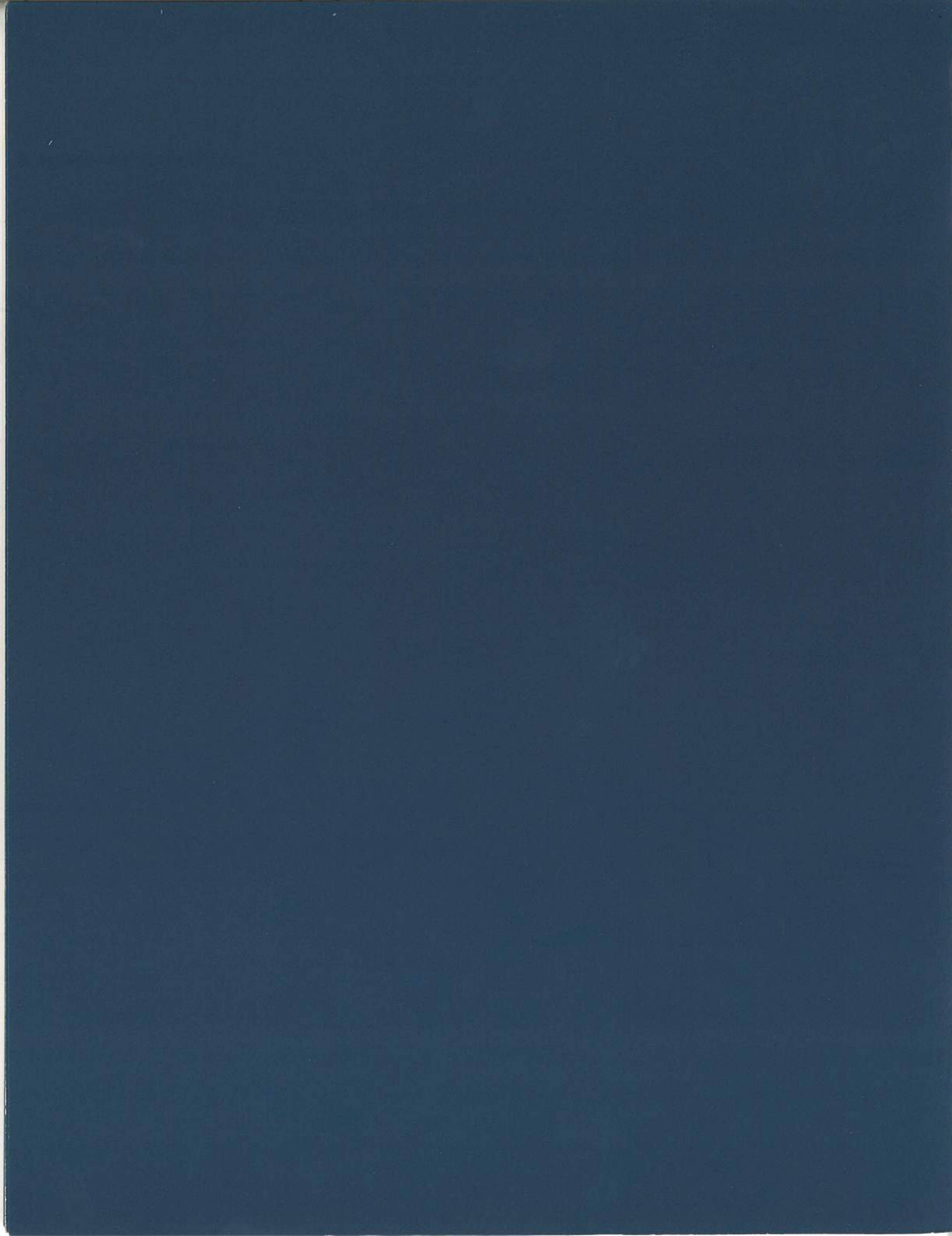
## AICPA MEMBERSHIP

### *Sources and occupations of AICPA membership*

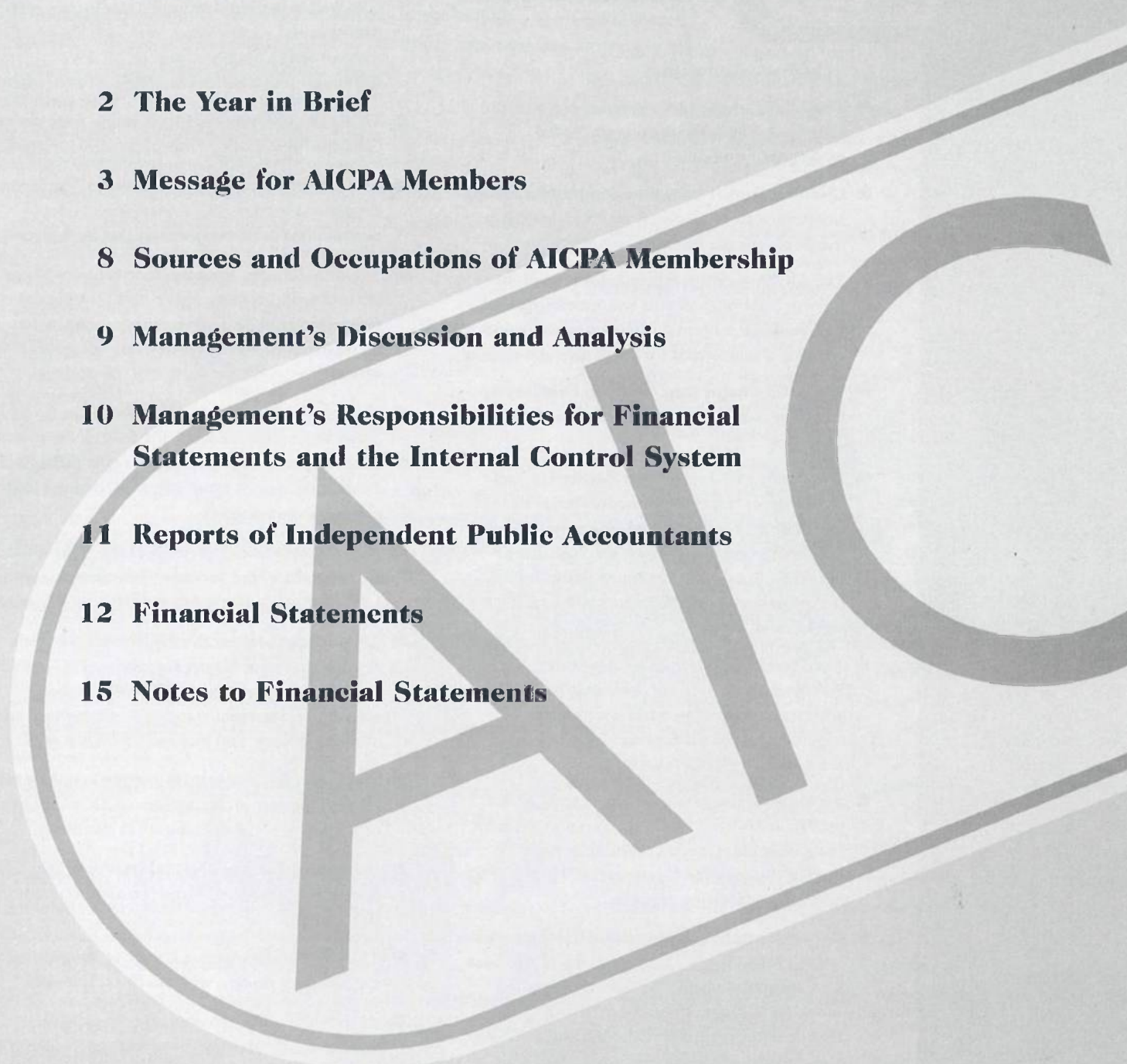
*(Total AICPA membership as of July 31, 1996 was more than 328,000)*

	1984	1986	1988	1990	1992	1994	1996
Total AICPA Membership	218,855	240,947	272,479	295,633	308,280	318,829	328,214
Public Accounting	51.5%	49.1%	46.5%	44.5%	42.6%	41.3%	40.4%
Business & Industry	38.4%	39.5%	39.6%	40.4%	40.6%	40.9%	42.3%
Education	2.7%	2.8%	2.7%	2.7%	2.4%	2.4%	2.4%
Government	3.3%	3.2%	3.6%	3.7%	4.1%	4.4%	4.4%
Retired, Miscellaneous	4.1%	5.4%	7.6%	8.7%	10.3%	11.0%	10.5%
Membership in Public Practice	112,673	118,226	126,771	131,508	131,306	131,630	132,617
Firms with one member	23.1%	25.1%	24.8%	24.3%	23.6%	23.5%	22.9%
Firms with 2 to 9 members	34.0%	34.3%	33.6%	34.3%	35.5%	36.5%	36.4%
Firms with 10 or more members*	15.1%	15.0%	16.4%	17.6%	19.8%	19.9%	20.8%
Members in 25 largest firms	27.8%	25.6%	25.2%	23.8%	21.1%	20.1%	19.9%

\*Excludes members in 25 largest firms



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# THE YEAR IN BRIEF



AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

- AICPA Chair Ronald S. Cohen focuses the Institute on helping members adapt to a new professional era marked by increased outside competition, client demands for a wider variety of services and growing technological complexity.
- The AICPA implements a major organizational reengineering, adopting a team-based management model.
- Cross-functional teams are established among Institute staff to research and address the needs of specific member segments.
- The AICPA-sponsored Securities Litigation Reform Bill is signed into law, protecting the CPA profession against frivolous lawsuits and creating a safe harbor for predictive statements.
- The AICPA helps stop efforts in Congress to subject tax-return preparers to double civil penalties.
- The Special Committee on Regulation and Structure of the Profession continues its research into effective regulation of the profession and is joined by the leadership of the National Association of State Boards of Accountancy (NASBA) to work as a joint committee.
- The Special Committee on Assurance Services redefines assurance services as it proceeds with its examination and development of specific, unique value-added services for the future of the CPA profession.
- An independent study on the results of the first phase of the AICPA image enhancement campaign indicates a measurable positive impact on the overall perception of the CPA among key decision makers.
- The image enhancement campaign's television commercial, "Pins," is named one of the best new commercials in the United States by *Adweek*. It is also awarded a Best of Broadcasting award by *Adweek* and the New England Broadcasting Association for best animated graphics in a TV commercial.
- The AICPA Center for Excellence in Financial Management, designed to cultivate recognition of the Institute and the CPA as the experts in the discipline of financial management, is approved.
- *Operation Access*, a major, Institute-wide technology plan centered around a single, dynamic database and supporting a "one-stop shopping" concept that will encompass all AICPA resources, products and services, is undertaken.
- *AICPA Online*, the Institute's home page on the Internet's World Wide Web, is introduced.
- The Institute inaugurates a Member Visitation Program whereby AICPA staff members pay personal visits to members in the workplace.
- A special Process Improvement Projects Team examines all Institute operations for efficient utilization of skills and resources, elimination of duplication, and enhancement of member service.
- The special Tax Division task force set up to study the implications of alternative tax systems issues its report, which is also published as the first AICPA book to be introduced into the consumer market.
- *Room Zoom: The CPA SourceDisc*, a new CD-ROM product that provides information on the CPA profession to recruit students, is released.
- An alliance between the AICPA and the Practitioners Publishing Company (PPC) yields a single, comprehensive CD-ROM product offering professional standards, accounting and auditing guides, and technical practice aids.
- The Institute's 24-hour fax hotline is enhanced, offering an even wider variety of AICPA and other professional documents to members.
- Beta Alpha Psi, the national fraternity for accounting students, forms an alliance with the AICPA.
- The Institute completes a year of ever-increasing member service with no dues increase.
- The AICPA adds two new affinity programs for members, offering discounts on Research Institute of America's (RIA) tax research materials and Pitney Bowes' mailing and production equipment.



# MESSAGE FOR AICPA MEMBERS

The CPA profession is at a crossroads of historic proportion. New competitors are rushing to offer traditional CPA services at the same time clients and employers expect CPAs to provide more services than ever before. Meanwhile, technology is revolutionizing how we work and what we deliver. In short, it's a whole new world of business for the CPA. The future success, indeed survival, of the CPA profession requires nothing less than making change a way of business.

The American Institute of Certified Public Accountants is spearheading change on behalf of the profession. We've revamped our organizational structure to maximize member service. We've accelerated efforts to help members understand and adapt to the new business environment. And, we've made technology a top priority, both for the Institute and for our members, their clients and employers.

## THE NEW AICPA

To lead the profession in this time of rapid-fire change, the AICPA reorganized its management structure this year, adopting a team-based model. Responding effectively to the new environment requires innovative thinking, quick decision-making, maximum flexibility and rapid implementation — all hallmarks of the team environment.

The new structure flattens management lines and empowers staff to offer solutions and make quick, effective decisions. Focused on adding value to member services, teams can take projects from idea to implementation, requiring as few layers of approval as possible. A 13-percent reduction in management positions has resulted.

Operationally, the AICPA is now organized along functional lines into six areas — Technical Services; Marketing, Product & Organizational Development; Operations & Information Technology; Public Affairs; Finance; and the office of the General Counsel. The new structure better equips the Institute to become the technology, marketing and performance-driven advocacy organization today's members need us to be.

Cross-functional teams, another feature of the new structure, cut across departmental lines to zero in on the needs of specific segments of our members — business and industry, government, education, younger CPAs and retirees, and public practice in firms of all sizes — as well as those of the accounting associations and state CPA societies. These teams tap staff

knowledge and skills from all areas of the Institute to research, analyze and help address specific member needs.

## THE NEW CPA

To help members gear up for the future of the profession, the AICPA continues to examine the new world in which CPAs must do business. We analyze the marketplace, identify new business opportunities, determine what new skills are needed, and offer information, training and other support to help members compete.

Identifying opportunities to deliver relevant, value-added services unique to the CPA is the mission of the AICPA Special Committee on Assurance Services. The Special Committee has defined a new, expanded "assurance" function for the CPA — "independent professional services that improve the quality of information, or its context, for decision makers." The Committee's work will be made available on *AICPA Online*, the Institute's Web site on the Internet, and in targeted executive summaries to members, state CPA societies and other interested groups.

Aligning public perception with the new CPA's role in the expanding universe of financial services is the objective of the AICPA's image enhancement campaign. The print, television and radio advertisements bearing the slogan, "The CPA. Never Underestimate The Value," spotlight the CPA's unique expertise in several financial services areas. The first, six-month phase is now complete and has achieved measurable results. An independent survey conducted by a national polling organization showed a marked increase in the public recognition of CPAs' qualifications to perform a wide array of nontraditional business and financial planning functions. The overall public perception of the CPA also improved dramatically.

To position the CPA as the professional of choice in financial management, the AICPA is launching the Center for Excellence in Financial Management. The Center is to be a focal point for recognition of the Institute and the CPA as the experts in financial management, in addition to more traditional CPA disciplines such as financial accounting, reporting and auditing.

In the current regulatory environment, redefining the CPA profession also means taking responsibility for regulating our activities and structuring our work. The AICPA's Special Committee on Regulation and Structure of the Profession con-



tinues to examine how to regulate ourselves more effectively, balancing public interest and market demands. A subgroup of the Special Committee has joined with the leadership of the National Association of State Boards of Accountancy (NASBA) to form a joint committee to study the issue.

Among the ever-increasing challenges to the profession's regulatory structure is a lawsuit between the Florida State Board of Accountancy and American Express Tax and Business Services. The AICPA continues to work with the state board and has filed *amicus* briefs in support of the position that CPAs practicing public accounting must do so in firms primarily owned by CPAs. The outcome of this matter will significantly influence the way the CPA profession will be structured in years to come.

Regarding the standards we set for continuing education, the profession made a major stride toward simplification this year. The Harmonization Task Force of the CPE Standards Subcommittee made changes to the AICPA's CPE standards to make them consistent with NASBA standards. The objective was to ensure consistent quality, eliminate differences and reduce administrative efforts.

To bring education in line with the new business environment, the Institute's Academic and Career Development Executive Committee recently developed new strategic plans. Focused on bringing technology into the classroom, preparing the student for a business advisory role and integrating accounting with business issues, the plan seeks to close an "ever-widening gap between education and practice." The AICPA Board of Directors also has discussed revising the substantive areas of the CPA Examination, testing business consulting and information technology along with accounting and the attest function.

## CHANGING WITH TECHNOLOGY

Competing in the new environment demands being up to speed technologically. At the Institute, we're developing the types of electronic-based services that will help members meet the demands of the new marketplace.

Last February, the AICPA launched *Operation Access*, a major, Institute-wide technology plan. The plan's backbone is a single database that will allow us to collect more comprehensive and relevant member information. Members will benefit from a "one-stop shopping" concept for all AICPA resources, products and services. With a single phone call, and usually through a single individual, members will complete all of their Institute business, including ordering a product, enrolling in a conference or CPE course, registering a compliment or complaint, updating their member records, and accessing an ever-increasing array of member services. Also, having additional information about our members will enable us to target more precisely programs and products to interested members.

As a sign of the times, the Institute has launched *AICPA Online*, our own home page on the Internet's World Wide Web. At the site, at <http://www.aicpa.org>, members can access information about the AICPA and member privileges, AICPA publications, news about the CPA profession, descriptions of AICPA products and services, events and conferences, exposure drafts, and even software support. *AICPA Online* also brings members related resources such as information on the state CPA societies and research links to firms, professional organizations and Internet search tools.

To help members keep up with client demands, the AICPA rolled out its *ATB for Windows™ 1.2* software program for preparing financial statements. The program mirrors the way CPAs prepare manual trial balances and produces

presentation-quality financials. Already the market leader in accountant's trial balance software, *ATB for Windows™1.2* also interfaces with general ledger programs and tax-preparation software.

Applying technology to the profession's recruiting efforts, the Institute introduced *Room Zoom: The CPA SourceDisc*. Employing CD-ROM technology, the disc offers a full spectrum of information about the CPA designation — including educational requirements, licensing procedures, and professional development and career opportunities — in a fully interactive format. The goal is to attract top-notch high-school and college students to the CPA profession. It is believed to be the first use of such technology specifically to recruit students into a profession.

Bringing interactivity to research and practical guidance materials, the Institute has licensed some professional literature to the Practitioners Publishing Company (PPC). A new CD-ROM product will integrate the Institute's Professional Standards, Audit and Accounting Guides, and Technical Practice Aids with the PPC's accounting and auditing engagement guides. Also, the Institute's Integrated Practice System (IPS) Engagement Manuals have been merged with those of PPC.

To minimize cost while maximizing member participation, the AICPA is testing in-house video conferencing for committee and other meetings. If successful, the technology will be installed in centers set up in airline-hub cities throughout the country, saving travel time and money for members participating in committee meetings and other Institute business.

## LEVERAGING LEGISLATION

Throughout the year, the AICPA continued to lobby on behalf of the profession in Congress and the state legislatures, with several major successes.

Culminating many months of hard work at the Institute in collaboration with the state CPA societies, national firms and the business community, the Securities Litigation Reform Bill is now law. The measure protects the CPA profession against frivolous class action securities lawsuits. Peripheral defendants, like the independent auditor, are required to pay only their fair share of a judgment based on a proportionate liability standard; no longer can defendants simply seek "deep pockets" for recovery. The legislation also creates a new safe harbor for predictive

statements to enable CPAs to project financial results in the course of their work.

The AICPA has also succeeded in warding off a move in Congress to subject tax-return preparers to double civil penalties.

A second Taxpayer Bill of Rights, which the Institute has long supported and aggressively worked for, also was signed into law this year. Among the new protections is a longer interest-free period in some circumstances for a delinquent tax payment; acknowledgment of the use of private, non-postal delivery services for documenting submission of tax-related documents; permission to switch to joint married filing status without first paying all tax liability; and a higher ceiling for damages recoverable by taxpayers for "reckless" IRS collection action.

Also, the movement toward adoption of 150-hour education legislation continues to progress in state legislatures across the nation. As of July 31, 1996, thirty-six jurisdictions have adopted the measure.

## SERVING MEMBERS

With the benefit of the hands-on, targeted research of our member segment teams, the AICPA is in the best position to date to understand thoroughly and address precisely the unique needs of members in all professional areas. Based on team findings and recommendations, Institute resources, products and services may be added, changed or dropped to cater to the specific needs of members.

As part of that effort, teams are reaching out to members in many ways — from establishing direct contact to collaborating with AICPA committees to conducting in-depth member interviews. This year, in addition to our Member Outreach initiative, we've added a new Member Visitation Program. Visits are made to members in their offices by AICPA staff members as they travel on Institute business. Approximately 200 visits by almost 100 staff members were made this year. These interviews cull members' opinions on professional and competitive issues facing the profession, the impact of technology on their work, and AICPA effectiveness in serving them. The objective is to get the information we need to ready ourselves and our members for the critical years ahead.

In our ongoing effort to reach out more to members in business and industry, the Institute has initiated a new program to



help communicate their recruiting needs to accounting educators.

Through field visits set up in conjunction with regional meetings of the American Accounting

Association, educators meet members in the workplace, earning four hours of CPE credit in the process.

As always, the AICPA continued its outreach to students to bring youth from all backgrounds into the profession. This year, the AICPA Foundation adopted an expanded mission statement, taking a more active role than ever in its 74-year history to provide funding to advance the CPA profession through education and related activities. The Foundation also approved seed funding to encourage more state society Accounting and Career Awareness Programs and widened its scholarship and fellowship offerings.

On a new front, the Institute formed an alliance this year with Beta Alpha Psi, the national accounting fraternity, which has moved its national headquarters to the AICPA offices in New York. Beta Alpha Psi has over 200 chapters of honors accounting students at AACSB-accredited universities nationwide. Blending a shared vision on recruiting qualified candidates, the alliance pools resources to augment communications and publications for students, with an emphasis on electronic delivery.

The AICPA also expanded member services over the past year. To make available a wide variety of AICPA and other professional information at a moment's notice, we have enhanced our 24-hour "fax hotline" for information ranging from comment letters and committee activities to conference information and product catalogs.

To ensure that the CPA profession makes a significant contribution to the ongoing tax restructuring debate in Congress, the AICPA Tax Division issued a comprehensive study entitled *Flat Taxes and Consumption Taxes: A Guide to the Debate*. That study was also published as an

AICPA book for the consumer market — *America's Tax Revolution — How It Will Affect You*. Also, a special telephone hotline has been set up to provide updates on the pending flat and consumption tax proposals.

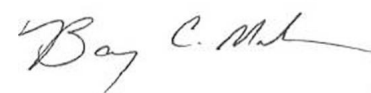
Two new "affinity" programs, which employ the joint purchasing power of members to yield discounts and other perks, were added this year. Through the Research Institute of America (RIA), AICPA members can receive a 10-percent discount on the purchase of the company's popular tax research products and services, or five percent on subscription renewals, and a 30-percent discount on RIA's *Federal Tax Handbook*. From the Pitney Bowes company, members can now purchase, lease or rent mailing, weighing, shipping and folding-inserting equipment at special rates.

## CHANGING OUR MINDSETS

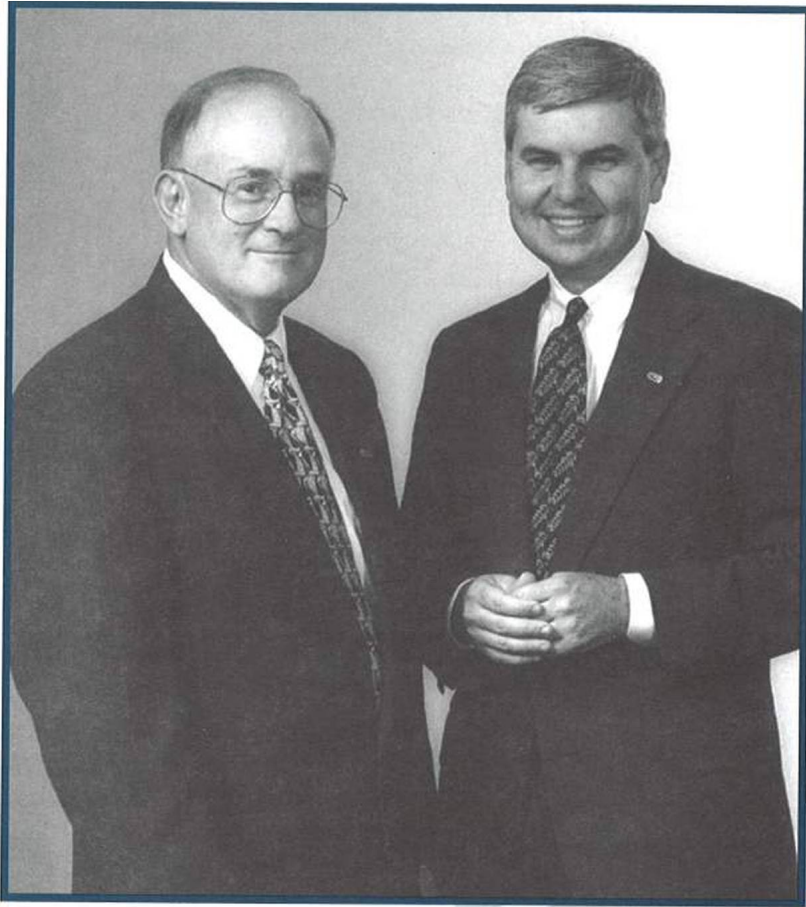
"Change is inevitable" is an aphorism that has taken on new meaning for the CPA. It's a harsh reality of the new world of business. Today, carrying out the AICPA's century-old responsibility to our members means putting change to work for the future of the profession. It's the only way we can survive, no less thrive, as a distinct profession. While the AICPA continues to reach out to members in every way possible, the profession's future rests in the hands of every individual CPA. We must all make change a way of business.



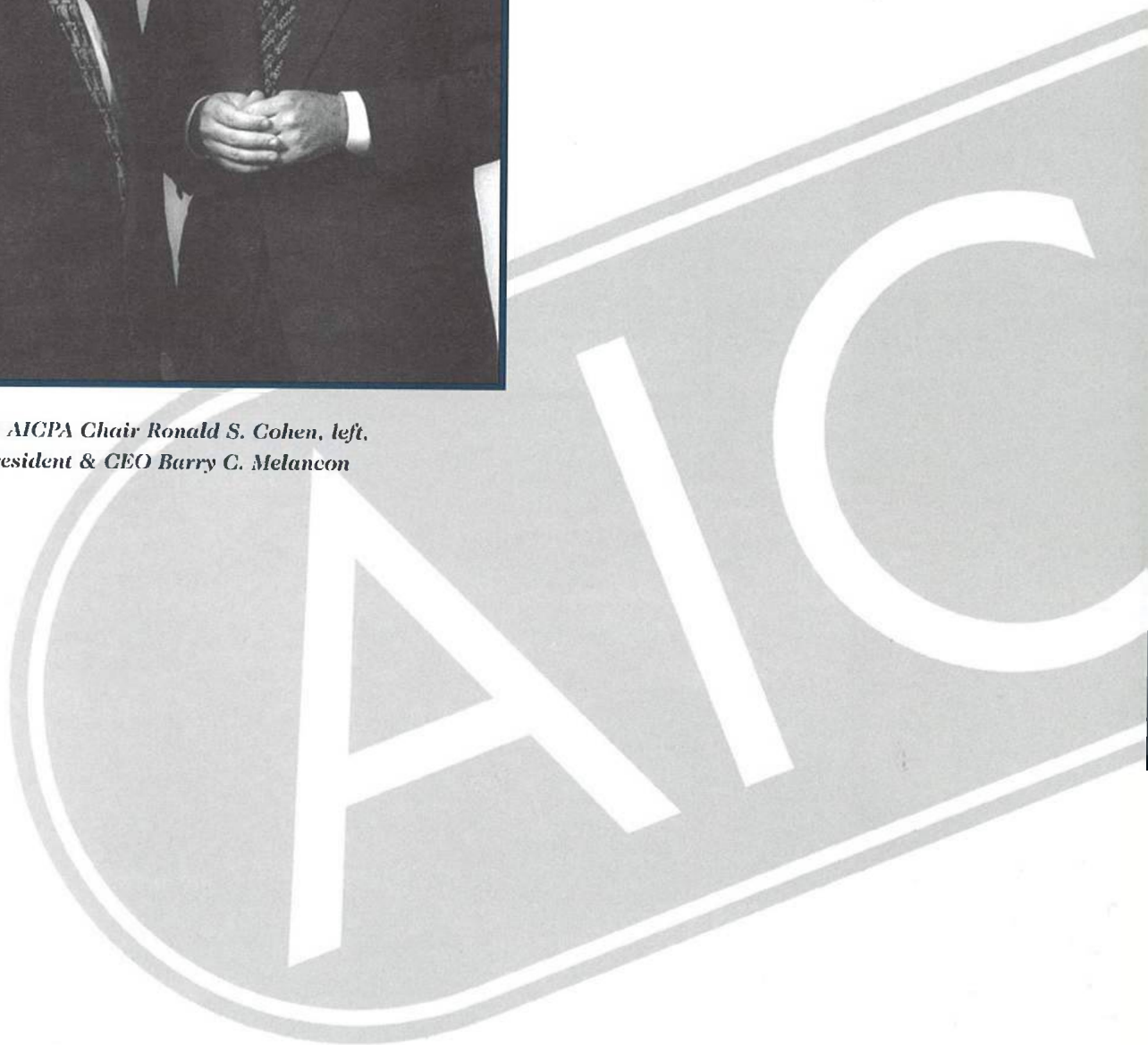
Ronald S. Cohen, CPA  
Chair of the Board



Barry C. Melancon, CPA  
President & CEO



*1995-96 AICPA Chair Ronald S. Cohen, left,  
and President & CEO Barry C. Melancon*



## SOURCES AND OCCUPATIONS OF AICPA MEMBERSHIP

**AICPA**

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

	1984	1986	1988	1990	1992	1994	1996
Total AICPA Membership	218,855	240,947	272,479	295,633	308,280	318,829	328,214
Public Accounting	51.5%	49.1%	46.5%	44.5%	42.6%	41.3%	40.4%
Business & Industry	38.4%	39.5%	39.6%	40.4%	40.6%	40.9%	42.3%
Education	2.7%	2.8%	2.7%	2.7%	2.4%	2.4%	2.4%
Government	3.3%	3.2%	3.6%	3.7%	4.1%	4.4%	4.4%
Retired & Miscellaneous	4.1%	5.4%	7.6%	8.7%	10.3%	11.0%	10.5%
Membership in Public Practice	112,673	118,226	126,771	131,508	131,306	131,630	132,617
Firms with one member	23.1%	25.1%	24.8%	24.3%	23.6%	23.5%	22.9%
Firms with 2-9 members	34.0%	34.3%	33.6%	34.3%	35.5%	36.5%	36.4%
Firms with 10 or more members, except the 25 largest firms	15.1%	15.0%	16.4%	17.6%	19.8%	19.9%	20.8%
25 largest firms	27.8%	25.6%	25.2%	23.8%	21.1%	20.1%	19.9%

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The combined financial statements reflect the financial results of the American Institute of Certified Public Accountants, the Division for CPA Firms, the Accounting Research Association, Inc., the AICPA Benevolent Fund, Inc., and the American Institute of Certified Public Accountants Foundation, collectively the "Institute." The presentation of the financial statements has been changed this year to recognize the reporting requirements set forth in Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*.

This year, the Institute has also adopted the following Statements of Financial Accounting Standards:

- *Employers' Accounting for Postretirement Benefits Other Than Pensions* (SFAS No. 106)
- *Accounting for Contributions Received and Contributions Made* (SFAS No. 116)
- *Financial Statements of Not-for-Profit Organizations* (SFAS No. 117)
- *Accounting for Certain Investments Held by Not-for-Profit Organizations* (SFAS No. 124).

The 1996 results include a non-cash charge for accounting changes of \$4.1 million. This charge reflects the cumulative effect of changes in accounting principles for the following: SFAS No. 106 of \$7.5 million, offset by \$3.1 million for SFAS No. 124 and \$.3 million for SFAS No. 116. Before the cumulative effect of changes in accounting principles, combined revenue exceeded expenses by \$6.0 million in 1996 and \$6.1 million in 1995. After the effect of such changes, the net result was an increase in combined unrestricted net assets of \$1.9 million in 1996.

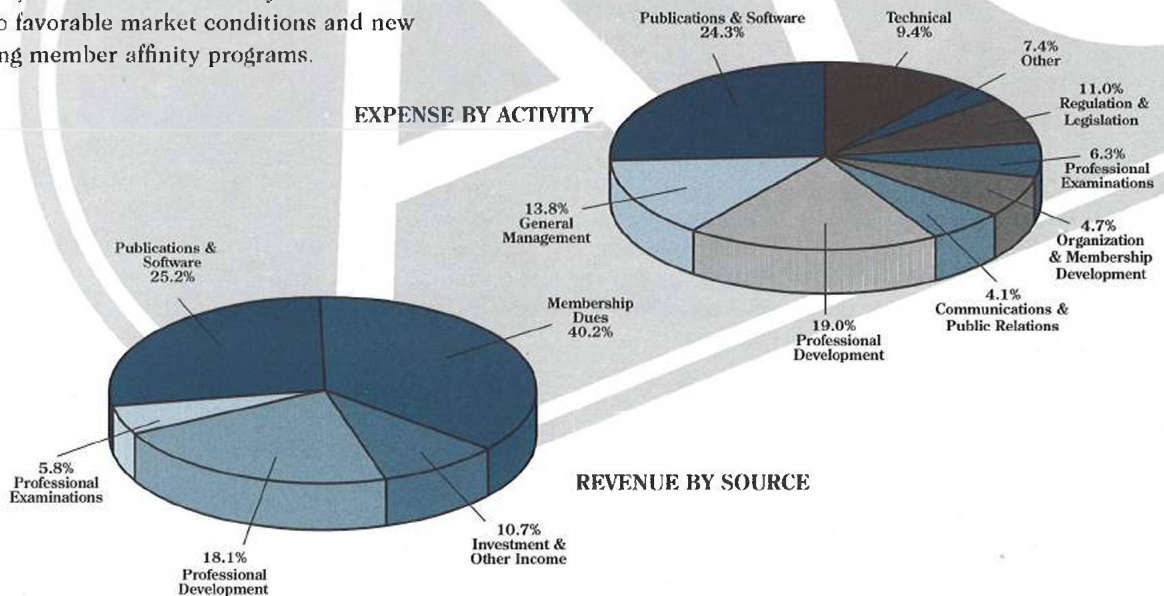
Revenue in 1996 was \$138.1 million. While publication and professional development sales generated lower revenue, investment and sundry income was higher due to favorable market conditions and new and expanding member affinity programs.

Expenses in 1996 were \$132.1 million. Costs of the CPA examination increased during the last year due to the additional security required for the nondisclosed format of the examination. In addition, the image enhancement campaign resulted in higher communications and public relations costs. General management costs were essentially flat for the two years.

Total cash and marketable securities at July 31, 1996 and 1995 were \$71.0 million and \$62.7 million, respectively. The increase of \$8.3 million was principally attributable to cash flow from operations of \$13.2 million offset by \$4.3 million of technology-related capital purchases aimed at repositioning the Institute for success in an information-technology-based world. In addition, the Institute repaid \$2.8 million of long-term debt.

During the past year, several new initiatives were commenced and the Institute converted to a team-based environment to better address needs and become more proactive. In addition, the Institute has implemented a continuous process improvement program. Ultimately, all functions, staff activities and external relations are being reviewed in a detailed analysis. During the year ended July 31, 1996, six functional areas underwent this review.

In continuing our commitment to member service and the public interest, as detailed in our Values & Visions Statement, the Institute plans to continue to dedicate resources toward meeting its public commitment while understanding and addressing our constituencies' needs and improving our technology to serve our membership better. We anticipate continued expenditures for technology to support a customer/member service organization.



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

## FINANCIAL STATEMENTS

AICPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

The financial statements of the American Institute of Certified Public Accountants and related organizations (the "Institute") were prepared by management 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 of the financial reporting process and 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 accountants.

The financial statements have been audited by an independent public accounting firm, J.H. Cohn LLP, 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

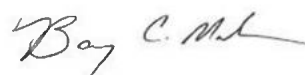
The Institute maintains an internal control system over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition which is designed to provide reasonable assurance to the Institute's management and Board of Directors regarding the preparation of reliable 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 applied 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.

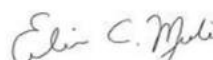
There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even the most effective internal control system can provide only reasonable assurance with respect to financial 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, 1996, 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 LLP 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



Eileen C. Miele  
Chief Financial Officer



# REPORTS OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Members of the American  
Institute of Certified Public Accountants

We have audited the accompanying combined statements of financial position of the AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND RELATED ORGANIZATIONS as of July 31, 1996 and 1995, and the related combined statements of activities and cash flows 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the American Institute of Certified Public Accountants and Related Organizations as of July 31, 1996 and 1995, and the results of their activities and cash flows for the years then ended, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, in 1996 the Institute changed its methods of accounting for postretirement benefits other than pensions, investments in marketable securities and contributions and its method of financial reporting and financial statement presentation, including its method of reporting related organizations.



New York, New York  
August 27, 1996

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 AND RELATED ORGANIZATIONS maintained an effective internal control system over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition as of July 31, 1996 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 and Related Organizations maintained an effective internal control system over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition as of July 31, 1996 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").



New York, New York  
August 27, 1996

# FINANCIAL STATEMENTS

## JULY 31, 1996 AND 1995

AMERICAN INSTITUTE OF CERTIFIED PUBLIC  
ACCOUNTANTS AND RELATED ORGANIZATIONS

COMBINED STATEMENTS OF FINANCIAL POSITION  
JULY 31

	1996	1995
	(\$000)	
<b>Assets:</b>		
Cash .....	\$ 630	\$ 165
Marketable securities .....	70,380	59,390
Accounts and notes receivable (less an allowance for doubtful accounts: 1996, \$1,082,000; 1995, \$885,000) .....	11,896	11,346
Inventories .....	2,385	2,283
Deferred costs and prepaid expenses .....	3,202	4,054
Furniture, equipment and leasehold improvements, net .....	22,850	21,919
<b>Total assets .....</b>	<b><u>\$111,343</u></b>	<b><u>\$99,157</u></b>
 <b>Liabilities and net assets:</b>		
<b>Liabilities:</b>		
Accounts payable and other liabilities .....	\$ 14,459	\$15,381
Advance dues .....	25,903	23,894
Unearned revenue .....	12,810	11,400
Long-term debt .....	1,200	4,000
Deferred rent .....	14,338	12,789
Deferred employee benefits .....	11,157	2,128
<b>Total liabilities .....</b>	<b><u>79,867</u></b>	<b><u>69,592</u></b>
 <b>Net assets:</b>		
Unrestricted .....	30,828	28,917
Permanently restricted .....	648	648
<b>Total net assets .....</b>	<b><u>31,476</u></b>	<b><u>29,565</u></b>
<b>Total liabilities and net assets .....</b>	<b><u>\$111,343</u></b>	<b><u>\$99,157</u></b>

The accompanying notes to financial statements are an integral part of these statements.

AMERICAN INSTITUTE OF CERTIFIED PUBLIC  
ACCOUNTANTS AND RELATED ORGANIZATIONS

COMBINED STATEMENTS OF ACTIVITIES  
YEAR ENDED JULY 31

	<u>1996</u>	<u>1995</u>
	(\$000)	
<b>Changes in unrestricted net assets:</b>		
Revenue and gains:		
Dues .....	\$ 55,536	\$ 55,190
Publications and software .....	34,860	37,434
Professional development .....	24,953	25,133
Investment and sundry income .....	13,418	9,317
Professional examinations .....	8,052	7,547
Contributions .....	1,323	1,085
Total unrestricted revenue and gains .....	<u>138,142</u>	<u>135,706</u>
Expenses:		
Program services:		
Publications and software produced for sale .....	25,308	27,404
Professional development .....	25,029	25,266
Member services:		
Regulation and legislation .....	14,559	14,472
Technical .....	12,419	11,657
Publications .....	6,763	6,040
Other .....	3,350	2,539
Professional examinations .....	8,294	7,418
Communications and public relations .....	5,478	4,074
Support and scholarships .....	5,372	5,250
Assistance programs .....	1,081	1,055
Supporting activities:		
General management .....	18,227	18,065
Organization and membership development .....	6,203	6,343
Total expenses .....	<u>132,083</u>	<u>129,583</u>
Increase in unrestricted net assets before cumulative effect of changes in accounting principles .....	<u>6,059</u>	<u>6,123</u>
Cumulative effect of changes in accounting principles:		
Postretirement benefits .....	(7,493)	—
Marketable securities .....	3,102	—
Contributions .....	243	—
Totals .....	<u>(4,148)</u>	<u>—</u>
Increase in unrestricted net assets .....	1,911	6,123
Unrestricted net assets, beginning of year .....	28,917	22,794
Unrestricted net assets, end of year .....	<u>\$ 30,828</u>	<u>\$ 28,917</u>

The accompanying notes to financial statements are an integral part of these statements.

AMERICAN INSTITUTE OF CERTIFIED PUBLIC  
ACCOUNTANTS AND RELATED ORGANIZATIONS

COMBINED STATEMENTS OF CASH FLOWS  
YEAR ENDED JULY 31

	1996	1995
	(\$000)	
<b>Increase (Decrease) in Cash:</b>		
Operating Activities:		
Cash received from members and customers	\$128,455	\$131,975
Interest and dividends received	2,965	2,777
Cash paid to suppliers, employees and other	(117,789)	(120,539)
Interest paid	(139)	(290)
Income taxes paid	(280)	(144)
Net cash provided by operating activities	<u>13,212</u>	<u>13,779</u>
Investing Activities:		
Payments for purchase of equipment	(4,320)	(8,535)
Payments for purchase of marketable securities	(142,050)	(87,364)
Proceeds from sale of marketable securities	136,423	83,448
Net cash used in investing activities	<u>(9,947)</u>	<u>(12,451)</u>
Financing Activities — payments of long-term borrowings	<u>(2,800)</u>	<u>(1,300)</u>
Net increase in cash	465	28
Cash, beginning of year	165	137
Cash, end of year	<u>\$ 630</u>	<u>\$ 165</u>

**Reconciliation of increase in unrestricted net assets to net cash provided by operating activities:**

Increase in unrestricted net assets	\$ 1,911	\$ 6,123
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization:		
Furniture, equipment and leasehold improvements	3,389	3,011
Internal computer systems	975	920
Gain on sale of marketable securities	(3,826)	(606)
Amortization of subscription revenue	(246)	(232)
Unrealized loss on marketable securities	1,565	—
Cumulative effect of changes in accounting principles	4,148	—
Provision for:		
Losses on accounts and notes receivable	322	195
Obsolete inventories	575	732
Deferred rent	1,259	1,781
Deferred employee benefits	1,790	725
Changes in operating assets and liabilities:		
Accounts and notes receivable	(872)	175
Inventories	(677)	(50)
Deferred costs and prepaid expenses	(248)	(209)
Accounts payable and other liabilities	(922)	1,651
Advance dues	2,377	(694)
Unearned revenue	1,656	(33)
Deferred rent	290	290
Deferred employee benefits	(254)	—
Total adjustments	<u>11,301</u>	<u>7,656</u>
Net cash provided by operating activities	<u>\$ 13,212</u>	<u>\$ 13,779</u>

The accompanying notes to financial statements are an integral part of these statements.

# NOTES TO FINANCIAL STATEMENTS

## JULY 31, 1996 AND 1995

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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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.

The financial statements include the accounts of the American Institute of Certified Public Accountants ("AICPA") and the following related organizations, the Division for CPA Firms ("Division"), the Accounting Research Association, Inc. ("ARA"), the AICPA Benevolent Fund, Inc. ("Benevolent Fund") and the American Institute of Certified Public Accountants Foundation ("Foundation"), which have been combined in accordance with Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations* (SOP 94-3). As required by SOP 94-3, the 1995 financial statements of the AICPA and the related organizations have been restated. As used herein, the "Institute" includes the AICPA and the related organizations.

The AICPA is the national professional organization for all Certified Public Accountants. It provides members with the resources, information and leadership that enables them to provide services in the highest professional manner. The Division, consisting of both the Private Companies Practice Section ("PCPS") and the SEC Practice Section ("SECPS"), strives to improve the quality of accounting and auditing services by CPA firms through an effective peer review and continuing professional education program. The ARA makes an annual best efforts commitment to raise funds for the Financial Accounting Foundation to support the work of the Financial and Governmental

Accounting Standards Boards from sources within the accounting profession. The Benevolent Fund provides financial assistance to needy members of the AICPA and their families. The Foundation advances the profession of accountancy and develops and improves accountancy education by providing funds for a number of educational activities in the accountancy field.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Effective August 1, 1995, the Institute adopted Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (SFAS No. 106). Under SFAS No. 106, an organization is required to accrue the projected future cost of providing postretirement benefits during the period that employees render the services necessary to be eligible for such benefits. While the adoption of SFAS No. 106 does have an impact on the Institute's reported increase in unrestricted net assets, it does not impact the Institute's cash flow because the Institute intends to continue its current practice of paying the cost of postretirement benefits as incurred. The Institute has elected to recognize the transition obligation of \$7,493,000 in its entirety as a cumulative effect of an accounting change in the accompanying 1996 statement of activities.

Effective August 1, 1995, the Institute elected early adoption of Statement of Financial Accounting Standards No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations* (SFAS No. 124). Under SFAS No. 124, a not-for-profit organization is required to report invest-

ments in equity securities with readily determined fair values and all investments in debt securities at fair value with unrealized gains and losses included in the statement of activities. Accordingly, at August 1, 1995, the Institute increased the carrying value of its investments in marketable securities by \$3,102,000 and, as permitted by SFAS No. 124, recognized the corresponding gain as a cumulative effect of an accounting change in the accompanying 1996 statement of activities.

In 1996, the Institute also adopted Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made* (SFAS No. 116). In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. As permitted by SFAS No. 116, the Institute recognized the cumulative effect of applying the provisions of this new Statement in the accompanying 1996 statement of activities.

A large number of people have contributed significant amounts of time to the activities of the Institute. The financial statements do not reflect the value of these contributed services because they do not meet the recognition criteria of SFAS No. 116.

In 1996, the Institute also adopted Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations* (SFAS No. 117). Under SFAS No. 117, an organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Accordingly, the Institute has reclassified the 1995 financial statements. This reclassification had no effect on the change in net assets for 1995.

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 credit-worthy, 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, 1996, the Institute has no significant concentrations of credit risk.

The carrying amounts of cash, receivables, accounts payable and accrued expenses approximate fair value because of the short-term nature of the items. The fair value of marketable securities is determined by quoted market prices. The fair value of long-term debt is based on current interest rates for similar debt instruments.

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 three to ten years. Leasehold improvements are amortized over the shorter of their useful lives or the remainder of the lease period.

Dues are recorded in the applicable membership period.

Revenue from subscriptions is deferred and recognized on the straight-line method over the term of the subscriptions, which are primarily for one year.

Advertising revenue is recorded as publications are issued.

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 AICPA and the related organizations are organized as not-for-profit organizations under the applicable sections of the Internal Revenue Code. Certain income, however, is subject to taxation.

The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

## 2. MARKETABLE SECURITIES

Marketable securities consist of:

	<u>1996</u>	<u>1995</u>
	(\$000)	
U.S. Treasury obligations	\$19,086	\$17,526
Bonds and notes	30,963	27,525
Equities	<u>20,331</u>	<u>17,441</u>
Total fair value	70,380	62,492
Excess of fair value over cost	<u>1,537</u>	<u>3,102</u>
Total cost	<u>\$68,843</u>	<u>\$59,390</u>

Marketable securities held at July 31, 1995 (prior to the adoption of SFAS No. 124) were carried at amortized cost of \$59,390,000 as shown in the 1995 statement of financial position. Short-term, highly liquid investments are treated as investments rather than cash equivalents and are included in marketable securities.

Investment income consists of:

	<u>1996</u>	<u>1995</u>
	(\$000)	
Dividends and interest	\$2,982	\$2,753
Realized gains	3,826	605
Unrealized losses	<u>(1,565)</u>	<u>—</u>
	<u>\$5,243</u>	<u>\$3,358</u>

## 3. INVENTORIES

Inventories consist of:

	<u>1996</u>	<u>1995</u>
	(\$000)	
Paper and material stock	\$ 602	\$ 579
Publications in process	600	713
Printed publications and course material	<u>1,183</u>	<u>991</u>
	<u>\$2,385</u>	<u>\$2,283</u>

#### 4. FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Furniture, equipment and leasehold improvements consist of:

	<u>1996</u>	<u>1995</u>
	(\$000)	
Furniture and equipment	\$22,281	\$19,152
Leasehold improvements	<u>15,072</u>	<u>13,881</u>
	37,353	33,033
Less accumulated depreciation and amortization	<u>14,503</u>	<u>11,114</u>
	<u>\$22,850</u>	<u>\$21,919</u>

#### 5. LONG-TERM DEBT

Long-term debt consists of:

	<u>1996</u>	<u>1995</u>
	(\$000)	
N.J. Urban Development Corporation	\$1,200	\$1,200
Other	<u>—</u>	<u>2,800</u>
	<u>\$1,200</u>	<u>\$4,000</u>

The note bears interest at 5 percent, payable monthly, through February 15, 2013, when the entire principal balance is due. The note is secured by equipment with a net book value of \$1,205,000. Based on borrowing rates currently available, the fair value of the note at July 31, 1996 is approximately \$800,000.

#### 6. 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, is 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 \$14,338,000 and \$12,789,000 as of July 31, 1996 and 1995.

Minimum rental commitments on non-cancellable real estate and equipment leases in effect as of July 31, 1996 are:

#### YEAR ENDING JULY 31

	(\$000)
1997	\$ 7,834
1998	8,479
1999	8,340
2000	8,169
2001	8,170
Years subsequent to 2001	<u>80,488</u>
	<u>\$121,480</u>

Rental expense for the years ended July 31, 1996 and 1995 was \$11,050,000 and \$11,598,000.

#### 7. EMPLOYEE BENEFIT 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. 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:

	<u>1996</u>	<u>1995</u>
	(\$000)	
Service cost — benefits earned during the year	\$1,670	\$1,619
Interest cost on projected benefit obligation	2,266	1,998
Return on plan assets:		
Actual	(7,431)	(3,480)
Deferred	4,556	794
Net amortization of unrecognized net asset	(274)	(274)
Net amortization of unrecognized prior service cost and net gain	<u>102</u>	<u>68</u>
	<u>\$ 889</u>	<u>\$ 725</u>

Funded status of the plan:

MAY 1

	<u>1996</u>	<u>1995</u>
	(\$000)	
Actuarial present value of projected benefit obligation, based on employment service to date and current salary levels:		
Vested benefits	\$(26,193)	\$(23,666)
Non-vested benefits	(1,235)	(1,450)
Additional amounts related to projected salary increases	<u>(5,088)</u>	<u>(4,807)</u>
Projected benefit obligation	(32,516)	(29,923)
Plan assets available for benefits, at fair value	<u>42,354</u>	<u>36,156</u>
Plan assets in excess of projected benefit obligation	9,838	6,233
Unrecognized net transition asset	(2,063)	(2,337)
Unrecognized net gain	(11,804)	(7,169)
Unrecognized prior service cost	<u>1,012</u>	<u>1,145</u>
Accrued pension cost	<u>\$ (3,017)</u>	<u>\$ (2,128)</u>

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 7.75 percent as of May 1, 1996 and 1995. The expected long-term rate of return on plan assets used in determining net pension expense was 9 percent for the years ended July 31, 1996 and 1995. The assumed rate of increase in future compensation levels was 4.75 percent for the years ended July 31, 1996 and 1995.

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 \$500,000 and \$495,000 for the years ended July 31, 1996 and 1995.

The Institute sponsors employee postretirement health care and life insurance plans and contributes toward the annual cost of retirees remaining in these plans.

Prior to adopting SFAS No. 106, the Institute recognized the cost of these plans on the cash basis which amounted to \$242,000 for the year ended July 31, 1995.

Net postretirement benefit cost for the year ended July 31, 1996 is comprised of:

	(\$000)
Service cost	\$ 331
Interest cost on accumulated postretirement benefit obligation	<u>570</u>
Net postretirement benefit cost	<u>\$ 901</u>

The accumulated postretirement benefit obligation as of May 1, 1996 consists of unfunded obligations related to the following:

	(\$000)
Retirees	\$2,809
Fully eligible active plan participants	2,790
Other active plan participants	<u>1,719</u>
Accumulated postretirement benefit obligation	7,318
Unrecognized net gain	<u>822</u>
Accrued postretirement benefit cost	<u>\$8,140</u>

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.75 percent in 1996.

The weighted average health care cost trend rate used in measuring the postretirement benefit expense was 7.75 percent in 1996, gradually decreasing to 5 percent in 2004 and remaining at that level thereafter. A one percentage point increase in the assumed health care cost trend rate for each year would have increased the accumulated postretirement

benefit obligation by \$1,258,000 and would increase the annual postretirement benefit expense by \$182,000. The Institute funds the cost of these plans on the cash basis and in 1996 and 1995 paid \$254,000 and \$242,000.

#### 8. SUPPORT FOR THE FINANCIAL ACCOUNTING FOUNDATION ("FAF")

The Institute makes an annual payment based on \$2.00 per member to the FAF to support the work of the FASB. In addition, 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 1996. The ARA also makes a best efforts commitment to raise funds for support of the GASB. The commitment is \$470,000 for the calendar year 1996. It is anticipated the ARA will continue to support the FASB and GASB.

#### 9. NET ASSETS

Net assets and changes in net assets for the years ended July 31, 1996 and 1995 follow:

	Balance August 1, 1994	Increase (Decrease)	Balance July 31, 1995	Increase (Decrease)	Balance July 31, 1996
Unrestricted:					
AICPA	\$16,524	\$ 6,337	\$22,861	\$ 537	\$23,398
Division	1,971	(259)	1,712	329	2,041
ARA	875	(39)	836	111	947
Benevolent Fund	1,825	214	2,039	554	2,593
Foundation	<u>1,599</u>	<u>(130)</u>	<u>1,469</u>	<u>380</u>	<u>1,849</u>
	22,794	6,123	28,917	1,911	30,828
Restricted:					
Foundation:					
Library Fund	<u>648</u>	<u>—</u>	<u>648</u>	<u>—</u>	<u>648</u>
	<u>\$23,442</u>	<u>\$ 6,123</u>	<u>\$29,565</u>	<u>\$ 1,911</u>	<u>\$31,476</u>

The Foundation's restricted net assets represent a permanent endowment fund, the income of which is unrestricted.

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