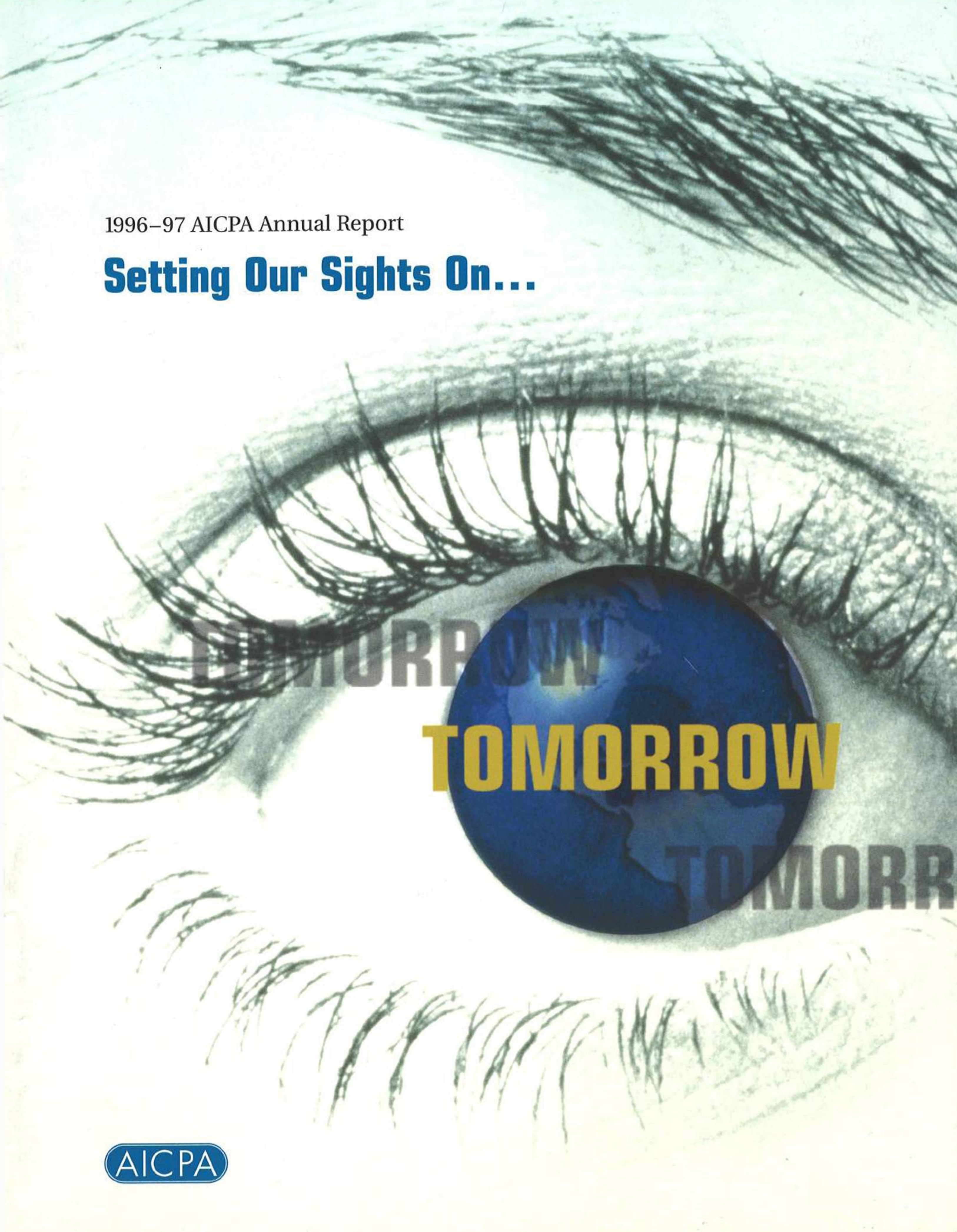
1997

# AICPA annual report 1996-97; Setting our sights on...Tomorrow

American Institute of Certified Public Accountants

1996–97 AICPA Annual Report

# Setting Our Sights On...




AICPA

Setting Our Sights On...

# TOMORROW

## Contents*



* Also view the 1996–97 AICPA Annual Report online by visiting *AICPA Online* at http://www.aicpa.org.

# The Year in Brief

- AICPA Chair Robert Mednick focuses the Institute on repositioning the CPA as the premier information professional for the 21st century.

- The AICPA springboards a profession-wide venture, known as the CPA Vision Project, for developing a shared vision among all CPAs to serve as a "roadmap" to the future of the profession.

- The final recommendations of the AICPA/NASBA Joint Committee on Regulation of the Profession outlining a new regulatory framework intended to enhance reciprocity and practice across state lines, achieve uniformity within today's state-based regulatory model, and respond to the demands of the marketplace and the future needs of the profession, were overwhelmingly passed by the Institute's governing Council.

- The Special Committee on Assurance Services completes its research and turns the reins of implementation over to a new, standing senior committee, the Assurance Services Executive Committee, chaired by AICPA Immediate Past Chair Ronald Cohen.

- The Center for Excellence in Financial Management is formally established on January 1, 1997 to serve members in business and industry. The Center, a virtual resource, aims to help members retool and develop new skills for their expanding role as strategic business partners and advisors within their organizations.

- The AICPA and the SEC establish a new, self-regulatory organization, known as the "Independence Standards Board," to develop and maintain independence standards and interpretations for auditors of public companies.

- The AICPA Board of Examiners commences a study to explore the means to reinvent the uniform CPA examination, focusing more on higher-order cognitive skills and a computer-based delivery system.

- A new Special Committee on Accreditation of Specializations, chaired by former AICPA Chair Robert Israeloff, is created to develop an improved means for formally identifying, recognizing, advocating and supporting new areas of specialization that warrant accreditation programs in order to, among other things, brand them as CPA services in an increasingly competitive marketplace.

- The PCPS Special Task Force on Standards Overload issues its final report, calling for increasing small-firm input into the standard-setting process, sensitizing peer reviewers to standards-overload concerns, and providing guidance on materiality in connection with financial-statement disclosures and on compilation engagements.

- An accreditation program in business valuation offering the "ABV" (Accredited in Business Valuation) designation is authorized by the AICPA's governing Council. Program requirements include work experience and the successful completion of a written examination. It is the second such accreditation program, following the establishment of the Personal Financial Specialist (PFS) designation in 1987. The first exam is scheduled for November 15, 1997.

- The Institute takes a more aggressive stance in focusing the CPA's responsibility for the detection of fraud in a financial statement audit by issuing SAS 82, which uses the term "fraud" for the first time in defining that responsibility and offers unprecedented operational guidance on its application. In addition, the standard is issued with numerous associated educational and informational items as the AICPA attempts to create a more user-friendly standard-setting approach.

- The AICPA sets up its Technology Advisor Program to equip members to offer business solutions to small-business clients through technology, forging affiliations with foundation vendor Microsoft Corp. and financial application vendor Great Plains Software, Inc.

- The AICPA prepares to become the first professional association to attain ISO 9001 certification, an international standard for quality in product and service delivery administered by the International Organization of Standards.

- The Institute's governing Council meets jointly with Federal Key Person coordinators for the first time, during which over 400 of the profession's leaders simultaneously descend on Capitol Hill to become personally acquainted with their representatives in Congress and to demonstrate that CPAs can be an important public-policy resource to those leading our national government.

- The AICPA's Board authorizes a major initiative to transform CPE and what qualifies as adult learning by focusing on CPA competencies.

- A new student affiliate membership category is created, open to college students and graduates who have not yet passed the uniform CPA examination.

- *AICPA Online*, the Institute's home page on the World Wide Web (http://www.aicpa.org), logs a successful year, averaging 34,000 visitors each month.

- The award-winning AICPA Image Enhancement Campaign enters its second year with a new television commercial produced by George Lucas' Industrial Light + Magic Commercial Productions, as well as several new print ads and radio spots for use by the state CPA societies.

- A four-week media campaign leading up to Tax Day '97 features the Institute's first video news release, which is distributed to television stations nationwide and reaches an audience of about 17 million.

- The AICPA adopts a diversity commitment statement to ensure that the Institute's professional staff and its committee structure foster diversity of membership.

- *The CPA Letter* is revamped to include special supplements targeted to different member segments, providing members with tailored information.

- The Accounting Careers CD-ROM, *Room Zoom: The CPA SourceDisc*, is taken to a new level with product enhancements including Windows 95 compatibility, Internet access, expanded video features and an interactive simulation game.

- *Operation ACCESS*, the Institute's multiyear technology initiative, is proceeding on target toward its goal of achieving "one-stop shopping" member service and a national database of CPAs.

- The Institute's Process Improvement Project teams have made substantial progress on, and continue to pursue, multifaceted improvement in the way the AICPA does business by measuring against goals such as quality, timeliness, cost-effectiveness, optimum utilization of resources and customer satisfaction.

- The AICPA family of affinity providers is expanded, offering enhanced member values.

- The AICPA Board approves a fiscal 1998 budget that focuses on several new initiatives, eliminating some projects and keeping dues unchanged for the fourth successive year.

- The Securities Litigation Uniform Standards Act, supported by the AICPA and the profession, which would require class-action lawsuits involving nationally traded securities to be brought exclusively in the federal courts to avoid circumventing the reforms of the Private Securities Litigation Reform Act of 1995, is being debated in Congress.

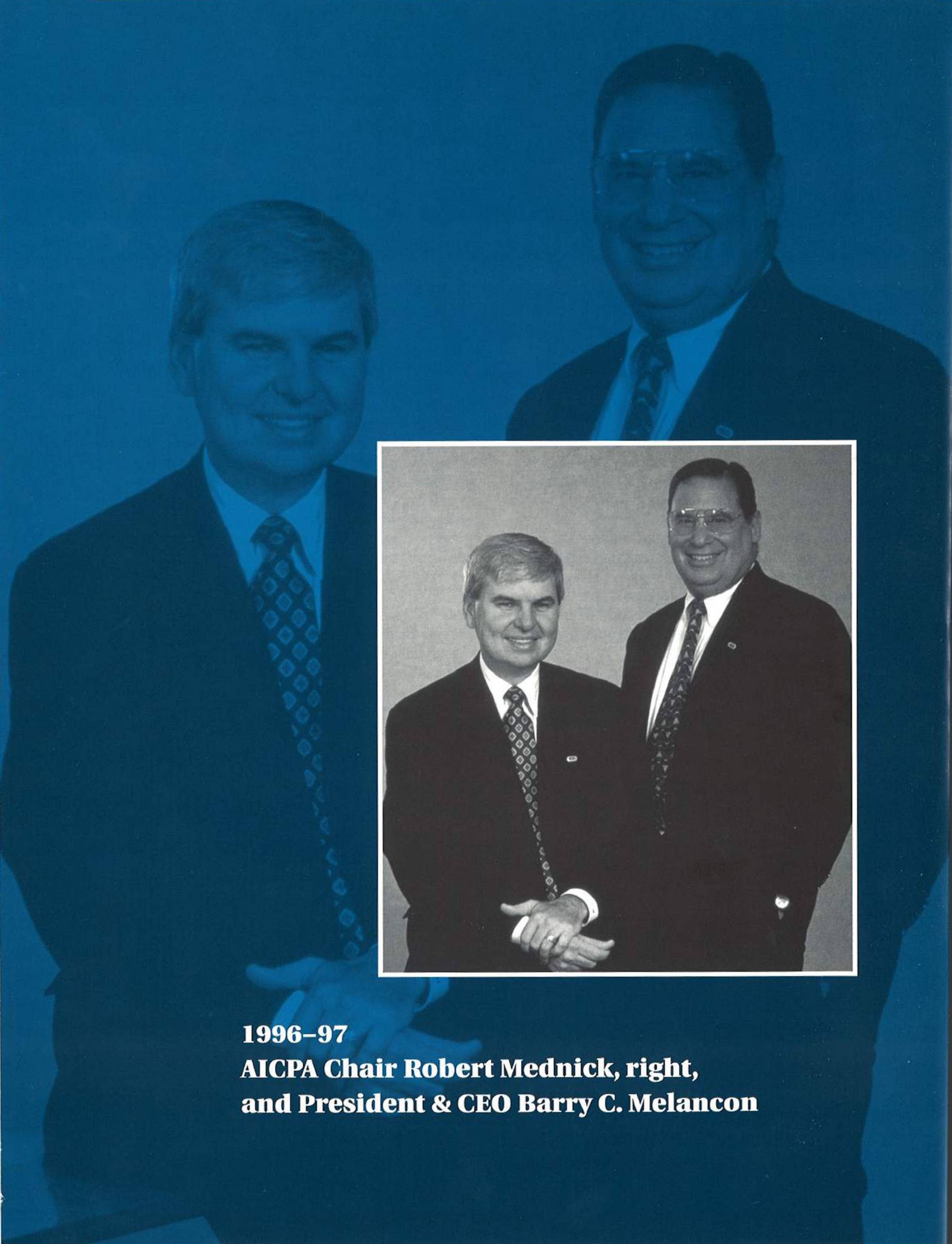
- The Institute continues to advocate greater scrutiny of pension plans covered by the Employee Retirement Income Security Act of 1974 (ERISA) through the elimination of limited-scope audits.

- The AICPA's Member Retirement Program through T. Rowe Price is expanded to members in business and industry.

- The Institute adds a Medicare supplement plan to its broad range of member insurance programs.

Setting Our Sights On...

TOMORROW



**1996–97**
**AICPA Chair Robert Mednick, right, and President & CEO Barry C. Melancon**

# Message for AICPA Members

As the CPA profession settles into its second century, it is appropriate to look back with pride on a hundred years of delivering unique value to our clients and employers. However, in today's fast-changing world, our primary focus has to be on the future. And, as the 20th century draws to a close, the only constant in the CPA's future is change. At the AICPA, top priority this year has been addressing what that change needs to be and creating avenues toward accomplishing it.

From concept to theory, and from theory to application, leading the charge for change is where the Institute has been — and where we're going. Our efforts have focused on preserving the best the profession has always had to offer, including meeting our public interest responsibilities, while enhancing regulatory flexibility and the ability to compete in the marketplace, along with identifying and expanding new product and service opportunities.

Looking forward, it's change that will bring opportunity and success to the profession. Merely reacting to change, however, will not do the job. Rather, the profession must take the initiative to meet the challenges of change on a proactive basis. Consequently, to achieve a common vision of the profession's future, the AICPA is spearheading a venture to reach out to the profession nationwide. Known as the "CPA Vision Project," it will involve direct, grassroots support from CPAs throughout the country, as well as from associations of CPA firms and other professional organizations that act on their behalf. The goal is complex, yet simple — to develop a comprehensive and integrated vision of the profession's own creation that will serve as a roadmap to its future.

## CPA Vision Project

To achieve that vision, the CPA Vision Project will engage thousands of CPAs across the country in an organized, interactive dialogue on those forces within our changing social, economic, political, technological and regulatory environment which are most likely to affect the profession significantly to arrive at a consensus view of where we go from here. This shared vision of the profession's future will serve as a platform upon which the Institute can confidently and aggressively develop and implement the programs needed to assist all segments of the profession to navigate the changing demands of the marketplace and leverage their core competencies and values to take full advantage of the opportunities the new demands create.

The project is being directed by the AICPA's governing Council, with significant support from the state CPA societies. It is headed up by Jeannie Patton, Executive Director of the Utah Association of CPAs, who is currently leading a visioning team in consolidating and building upon an extensive base of recent and ongoing research into marketplace issues and trends. In addition, Yankelovich Partners, one of the nation's leading market research firms, is currently conducting focus groups to elicit members' views on the changing needs of clients and employers, as well as the opinions of users of CPA products and services on future needs. At the same time, an External Advisory Council, comprised of 17 prominent business, government and education leaders, is being used to gather thought-leaders' perspectives on what the future will bear.

The findings from these activities will be addressed in a series of grassroots CPA "Future Forums" to be held in every jurisdiction in the U.S. The goal of these forums, which will be professionally facilitated, is to elicit direct feedback on the forces changing the business world and marketplace, various scenarios as to what the profession should strive to be in such an environment, and the core values and competencies which will be needed by future CPAs.

The feedback obtained from these meetings, as well as Leadership Forums for AICPA committees and staff, will provide the source material for a National Futures Forum — made up of delegates from each U.S. jurisdiction — scheduled for January 1998. The national forum will consolidate professional perspectives and collectively build a draft vision report, which will be given wide exposure within and outside of the profession. A special Web site (http://www.cpavision.org) will serve as a key communications source throughout this process for CPAs and others who are involved or interested in the effort.

Setting Our Sights On... TOMORROW

CPA VISION PROJECT

FOCUS ON THE HORIZON

"The visioning process gives us an opportunity as a profession to do something no other profession has ever done in the history of the United States. And that is to take our core competencies, to look out in an ever-changing marketplace, and find opportunities to apply those core competencies in a way that charts a very successful future, and in a way that makes sure that through a grassroots effort, we have as many of our members focused on the future as possible."

**Barry C. Melancon, CPA**
**AICPA President & CEO**

"I like to think that we're asking our members to take the time to try to look over the horizon — a very, very difficult thing to do — and brainstorm in the process, daydream in the process, do whatever it takes to try to really see what may be way out there as opposed to in front of our face. It's what will make a difference. If we're not successful in visioning, I have great fear others will establish our future for us. This is the opportunity for us to write our own script, to write our future."

**Robert Mednick, CPA**
**AICPA Chair 1996–97**

## Image Enhancement Campaign

As the profession's vision evolves, so will the AICPA's Image Enhancement Campaign, which aims to communicate the attributes of the new CPA to key audiences. Now in its second successful year, the Campaign recently featured a new television commercial produced by George Lucas' Industrial Light + Magic Commercial Productions. The commercial continues to use the "pin art" concept to depict the likeness of a person describing the CPA profession's strengths in objectivity and integrity. At the same time, it has been recognized with the Award of Distinction by The Communicator Awards, an independent group of professionals that recognizes outstanding work in the communications field. And, a report by national market research firm Audits & Surveys Worldwide revealed that the campaign is having a clear and significantly positive impact on changing the profession's image.

The campaign this year also featured four new print ads as well as three new radio spots focusing on the expanding services offered by CPAs. In this regard, we wish to thank those state CPA societies that are running the print and radio ads for significantly contributing to the success of the overall campaign.

## New Regulatory Framework

To better focus future regulation of the profession in this fast-changing environment, a Joint Committee on Regulation of the Profession — between the AICPA and the National Association of State Boards of Accountancy (NASBA) — has been hard at work the past couple years to craft a new state-based regulatory model. This year, the Joint Committee issued its final report, overwhelmingly approved by Council in May, intended to simplify practice across state lines and refocus future regulation on those services, namely attest services, in which the public interest is greatest.

Among its specific recommendations were:

- continued licensing of all CPAs at the state level after successful completion of the uniform CPA examination, 150 semester hours of college study along with a baccalaureate degree, and one year of general experience broadly defined to accommodate experience in all fields of employment;

- adoption of a "substantial equivalency" concept to simplify practice across state lines for all CPAs from states meeting the new Uniform Accountancy Act (UAA) licensing standards;

- "grandfathering" of current CPAs, including those who reside in states not deemed substantially equivalent, so that anyone who has passed the CPA examination prior to 2001 can qualify for substantial equivalency without 150 hours of education;

- modification of the ownership requirement for firms performing traditional attest services or holding themselves out as CPA firms from 100% control to a simple majority interest by CPAs; and

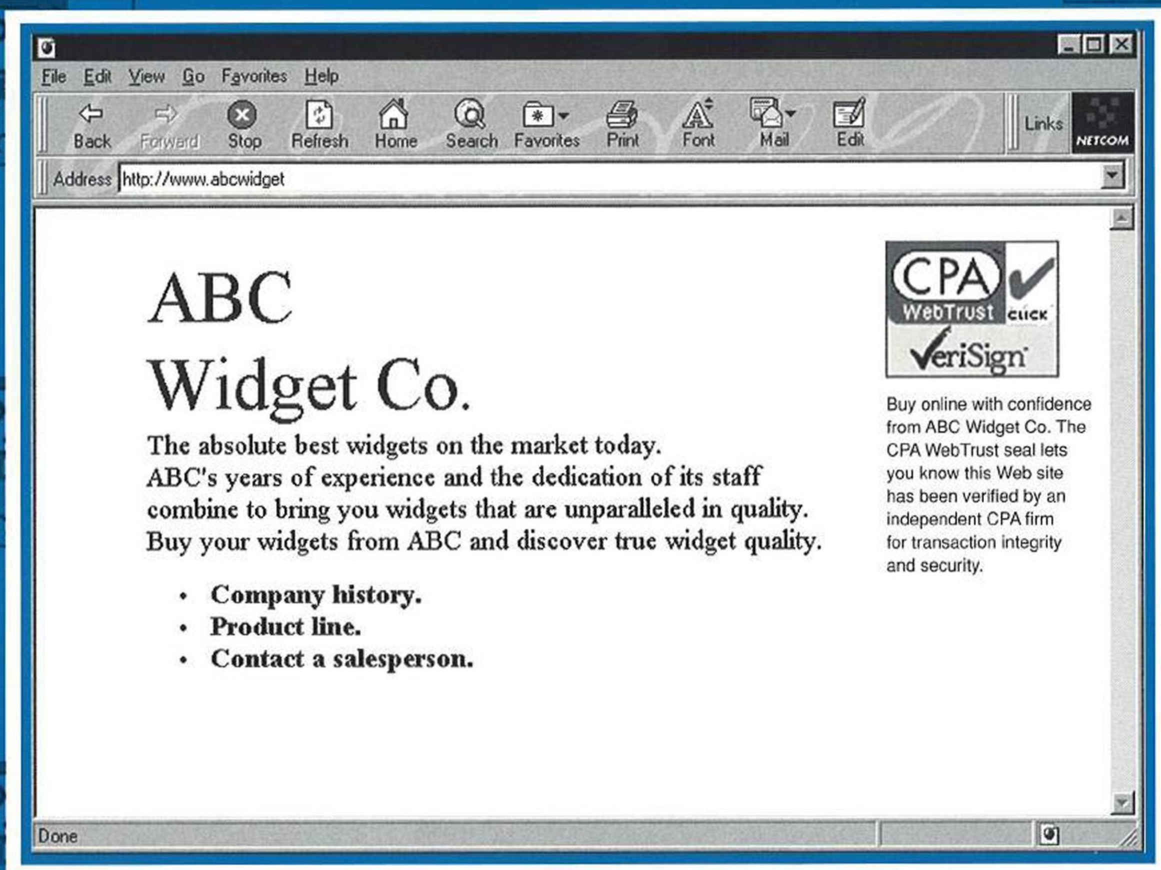
- allowance of the use of commissions and contingent fee arrangements, with proper disclosure, except for attest clients.

In September, the AICPA and NASBA Boards of Directors approved the codification of these changes in a new UAA.

In another key development to strengthen the regulatory framework for the profession, the AICPA and the SEC this year established a new, private sector standard-setting body within the AICPA, known as the "Independence Standards Board." Comprised of four prominent public members and four representatives of the profession, the ISB will increase public participation in the establishment of independence standards and preserve and enhance the public's perception of the independence of auditors of publicly owned companies. Although the SEC retains its ultimate statutory authority to define "independence," it is fully expected to consider the ISB's principles, standards, interpretations and practices as having substantial authoritative support for public company audits. Independence rules for private companies will continue to be set exclusively by the AICPA's Professional Ethics Executive Committee.

## The CPA's New Value

The third variable in the formula for change is the identification of new product and service opportunities. What's required is to match the special skills and core competencies of the CPA with the demands of the new marketplace to maintain our time-honored tradition of distinguished client and employer service.




**The first of a family of assurance services that will be rolled out in the coming months, the CPA WebTrust℠ service is intended to allay consumer fears of transaction integrity, confidentiality and privacy when engaging in electronic commerce. The CPA WebTrust seal is a graphic depiction placed on a client's Web page — as pictured above — of a CPA's examination of the site. The CPA WebTrust seal indicates that the CPA has verified the company's business practices, transaction integrity and security measures. CPAs offering the service and the accompanying seal — which is a certification mark of the AICPA — need to be registered with the Institute to do so.**

This year, the Special Committee on Assurance Services, chaired by Robert K. Elliott, completed its groundbreaking work, identifying several new "assurance services" as prime areas for future CPA involvement: Electronic Commerce; ElderCare; Health Care Effectiveness; Systems Reliability; Entity Performance Measures; and Comprehensive Risk Assessment. The Special Committee's work has now moved to the implementation stage with the formation of a standing AICPA senior committee, the Assurance Services Executive Committee, chaired by AICPA Immediate Past Chair Ronald S. Cohen. In September, the new Committee rolled out the first of its service lines, electronic commerce assurance, under the CPA WebTrust℠ service mark.

The Special Committee's work is an extremely important initiative for the future of the profession. The Special Committee has established a wide range of information needs that can be met by CPAs in the future and developed in an entirely new way to view, create and capitalize on such new service opportunities. It is this process which should serve as a catalyst to transform today's traditional CPA into the premier information professional of the 21st century.

For our members in business and industry, now over 140,000 strong and growing, the Institute officially launched on January 1 The Center for Excellence in Financial Management. The Center's objective is to help CPAs retool and develop new skills in the "New Finance" in order to take on an expanding role as strategic business partners and advisors within their organizations.

Simply put, the Center, a virtual resource, serves as a "clearinghouse" from which members can receive leading-edge information in such disciplines as shareholder value creation, capacity management, competitive intelligence, just-in-time production systems, cost management, business management, change management, cross-functional teaming and technology. It has no single location; rather, it is a concentration of data, knowledge, products and services coming from many sources, and delivered through many channels of communication (http://www.aicpa.org/cefm/intro.htm).

Center offerings include professional education, research, benchmarking and publications, an interchange of information, and strategic interaction with other accounting and business management associations such as the Consortium for Advanced Manufacturing-International and the Society of Management Accountants of Canada. It also is establishing relationships with universities to foster cooperative research, develop executive-level education programs, and design and produce seminars and workshops. Research services are provided through partnerships with other forward-looking organizations. In addition, the Center offers case-study grants to document the application of 21st-century business and financial management knowledge in companies of all sizes.

The past year also has seen numerous CPA firms change their structure in an attempt to respond to marketplace pressures. Recent activity has included outright sales to non-CPA firms, spin-offs and cross-enterprise relationships, and still other changes are underway. Some have regulatory approval, while others face court challenges.

All combined, these changes are dramatically altering the face of the CPA profession. The AICPA has been an active player in addressing the impact of these trends — from regulation to ethics to service mix considerations. How these issues play out will have a significant impact on the positioning of the profession for years to come.

## Tapping Technology

The Institute also launched this year its Technology Advisor Program to provide resources to enable members to offer their clients and employers business solutions through technology. Its mission is to facilitate the CPA's emerging role as a business systems consultant. To do so, the Program is assembling a business system consulting network of premier technology vendors who will supply products and services that will help members better compete in the future. Current network vendors include Microsoft Corp. and Great Plains Software, Inc., which offer a package of products and services, technical support and training, and their own certifications; other vendors also will be added. In addition, the Program fosters the identification of CPAs as the premier technology consultants to small businesses, a service need that CPAs are uniquely suited to fulfill, and includes an Institute certification known as the AICPA Technology Certificate of Educational Achievement (TCEA).

Employing technology to facilitate member service delivery, *Operation ACCESS*, the AICPA's multiyear technology program aimed at achieving "one-stop shopping" for members, is proceeding on schedule. Its targeted implementation of database core business software along with financial software also will create the infrastructure for a national database of CPAs.

Finally, *AICPA Online*, the Institute's home page on the World Wide Web, has had a successful first year. Among other things, it has provided the flexibility to download hundreds of pages of valuable information that has extended from Council minutes to news to links to federal legislative and regulatory developments.

## Calling on Congress

Legislation was enacted in late 1995 over a Presidential veto to significantly reform the federal securities litigation process. However, only one year later, many class-action lawyers were already pursuing the proverbial "loophole" by seeking to bring new cases in state, rather than federal, courts. Among other things, this practice totally undermines the 1995 law's provision of a "safe harbor" for forward-looking statements made by companies in good faith since they continue to be afraid to share information for fear of being sued in state courts. As a remedy, the Securities Litigation Uniform Standards Act, supported by the Institute and the profession, has been introduced in Congress and is currently being debated in both Houses. The Act calls for a uniform system of litigation for class actions by moving all such suits involving nationally traded securities back into the federal courts.

During the year, the AICPA worked closely with the National Commission on Restructuring the Internal Revenue Service, testifying three times before that group and submitting a comprehensive set of recommendations for simplifying the tax laws. We are particularly pleased that the Commission adopted a number of recommendations urged by the Institute in the report, including an independent board of directors for the IRS, a fixed term of office for the IRS Commissioner and a system requiring analysis of proposed tax legislation for complexity.

The Institute also continues to advocate greater scrutiny of pension plans covered by the Employee Retirement Income Security Act of 1974 (ERISA) through the elimination of limited-scope audits. We believe that workers deserve the greater protection provided by full-scope audits and support bills introduced in Congress to require such audits. In addition, the AICPA and the U.S. Department of Labor (DOL) have collaborated on a project to better educate CPAs about the unique aspects and risks of performing independent audits of employee benefit plans. The resulting video, "A Wake-Up Call," emphasizes the importance of the 70,000 pension plan audits conducted annually and discusses the resources available to CPAs in performing them.

Finally, the AICPA is persistently encouraging Congress to update the Fair Labor Standards Act to provide employers and employees greater flexibility in arranging work schedules. While the House of Representatives in March 1997 passed legislation supported by the Institute that would permit more workplace flexibility, the bill is currently stalled in the Senate.

## Synchronized Sights

As we approach the 21st century, we must match the skills, competencies and "goodwill" that have set the CPA apart for over a hundred years with new market forces, client and employer demands, and business realities. In the process, we will identify where we can deliver unique value with a whole new set of products and services. In doing so, we must look back at what we've done best, but also look forward to where we can be uniquely relevant in a rapidly changing marketplace. To achieve such a pivotal shift, we must know exactly where we are going. That requires not only vision, but shared vision.

It's clear that in developing that shared vision, the diversity of the CPA profession must continue to be a cornerstone. Individual CPAs and CPA firms will find their own niches within a broad-based profession in order to take full advantage of market opportunities that can add value to their clients and the public. Bottom line, we must look forward as a cohesive group and set our sights on tomorrow today. It's how we'll pave the way to a successful second hundred years.

Robert Mednick, CPA
*Chair of the Board*

Barry C. Melancon, CPA
*President & CEO*

Setting Our Sights On . . . TOMORROW

# Sources and Occupations of AICPA Membership

| | 1985 | 1987 | 1989 | 1991 | 1993 | 1995 | 1997 |
|---|---|---|---|---|---|---|---|
| Total AICPA Membership | 231,333 | 254,910 | 286,358 | 301,410 | 314,427 | 323,779 | 329,019 |
| Public Accounting | 51.0% | 47.6% | 45.8% | 43.2% | 42.2% | 40.7% | 39.6% |
| Business & Industry | 38.8% | 39.5% | 39.9% | 40.7% | 40.3% | 41.7% | 43.1% |
| Education | 2.7% | 2.8% | 2.7% | 2.8% | 2.3% | 2.4% | 2.4% |
| Government | 3.3% | 3.4% | 3.7% | 3.9% | 4.3% | 4.4% | 4.4% |
| Retired & Miscellaneous | 4.2% | 6.7% | 7.9% | 9.4% | 10.9% | 10.8% | 10.5% |
| Membership in Public Practice | 117,850 | 121,349 | 131,014 | 130,078 | 132,821 | 131,887 | 130,439 |
| Firms with one member | 23.9% | 25.6% | 23.8% | 24.1% | 23.2% | 23.2% | 23.1% |
| Firms with 2–9 members | 33.7% | 34.0% | 33.8% | 35.2% | 35.8% | 36.5% | 36.2% |
| Firms with 10 or more members, except the 25 largest firms | 15.1% | 15.5% | 17.3% | 18.8% | 20.0% | 20.4% | 21.0% |
| 25 largest firms | 27.3% | 24.9% | 25.1% | 21.9% | 21.0% | 19.9% | 19.7% |

# Management's Discussion and Analysis

As the Institute strives to better serve members in this rapidly changing world, new and enhanced technology has been and will be a continuing part of annual expenditures. During 1997, substantial efforts were undertaken to develop and implement new systems that will become operational in the next fiscal year when "one-stop shopping" for AICPA products and services will be introduced. The new internal systems have been confirmed as Year-2000 compliant and continuing internal systems are scheduled to become compliant with minimal cost. In addition, the Institute continues to: review its policies to ensure that they are consistent with a team-based environment; implement process improvement recommendations, including cost curtailment efforts; and has initiated plans to obtain an ISO 9001 certification.

The Institute also is continuing its efforts to reposition the profession for the 21st century while maintaining its commitment to the public interest. Major initiatives in 1997 included: the CPA Vision Project; the Center for Excellence in Financial Management; the Accredited Business Valuation designation; the AICPA/NASBA Joint Committee on Regulation of the Profession and a new line of CPA service opportunities developed by the Assurance Services Executive Committee. All of this was done without a dues increase in fiscal 1997.

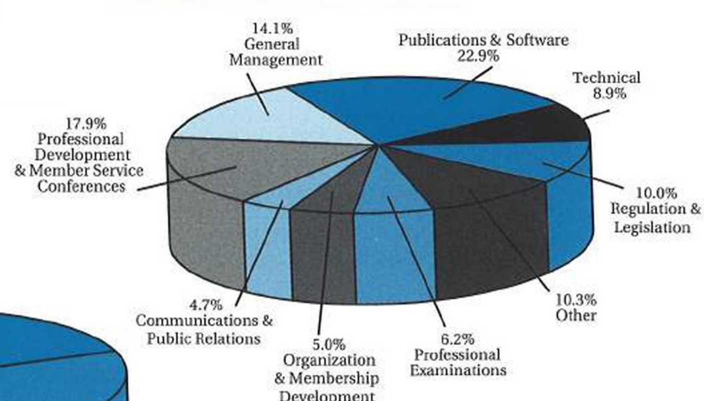
As shown in the financial statements, operating revenue (including interest and dividends) exceeded expenses by approximately $3.5 million in 1997 as compared with $3.8 million in 1996. Realized and unrealized gains (losses) on marketable securities were $3.7 and $7.3 million, respectively, in 1997, as compared with $3.8 and ($1.6) million, respectively, in 1996. The 1997 results are largely due to favorable market conditions. In addition, 1996 results included a non-cash charge, the cumulative prior year effect of accounting changes, of $4.1 million.

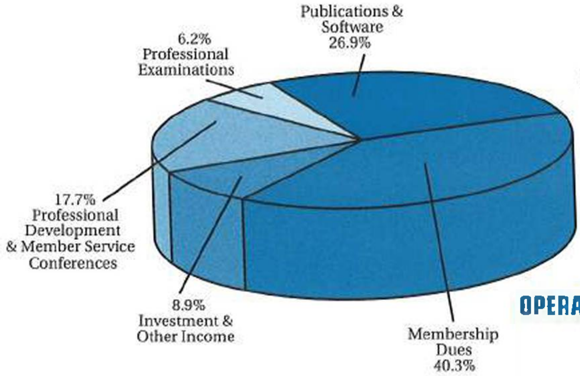
Operating revenue was $138.5 million in 1997 and $135.9 million in 1996. The increase in 1997 was primarily the result of the introduction of new and revised publications. Operating expenses of $135.0 million in 1997 reflect an increase of $2.9 million from 1996. Expenditures for the CPA Vision Project and other strategic initiatives resulted in an increase in member service expenses. The Image Enhancement Campaign resulted in higher communication and public relations costs while publication and professional development costs were lower due to cost curtailment efforts.

Cash flow provided by operating activities of approximately $14.5 million and $13.2 million in 1997 and 1996, respectively, was primarily invested in marketable securities and equipment. Recognizing the volatility of the market, the Institute, by policy, attempts to limit exposure to market risk and does not believe a downward trend in market conditions will materially affect its financial position.

At July 31, 1997, the Institute has a strong financial position with excellent liquidity and was in compliance with the Board of Directors' net asset target. The current liquidity and future dues (without increases in 1998) and product revenue should be sufficient to finance operations and meet the increasingly complex needs of members for the foreseeable future, primarily in connection with the repositioning of the profession in today's world of electronic commerce.

**OPERATING EXPENSE BY ACTIVITY**




**OPERATING 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 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 independent public accountants 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 Institute's internal control system, the quality of its financial reporting, and the safeguarding of assets against unauthorized acquisition, use or disposition.

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, a 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, 1997, 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 also was 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, 1997 and 1996, 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, 1997 and 1996, 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.

J. H. Cohn LLP

New York, New York
September 5, 1997

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, 1997 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, 1997 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 LLP

New York, New York
September 5, 1997

# Financial Statements
# July 31, 1997 and 1996

**AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND RELATED ORGANIZATIONS**

**COMBINED STATEMENTS OF FINANCIAL POSITION**
**JULY 31**

| | 1997 | 1996 |
|---|---|---|
| | ($000) | |
| ***Assets:*** | | |
| Cash | $ 860 | $ 630 |
| Marketable securities | 93,078 | 70,380 |
| Accounts and notes receivable (less an allowance for doubtful accounts: 1997, $1,300,000; 1996, $1,082,000) | 13,883 | 11,896 |
| Inventories | 2,017 | 2,385 |
| Deferred costs and prepaid expenses | 3,866 | 3,202 |
| Furniture, equipment and leasehold improvements, net | 21,557 | 22,850 |
| Total assets | $135,261 | $111,343 |
| ***Liabilities and net assets:*** | | |
| **Liabilities:** | | |
| Accounts payable and other liabilities | $ 17,419 | $ 14,459 |
| Advance dues | 28,415 | 25,903 |
| Unearned revenue | 13,995 | 12,810 |
| Long-term debt | 1,200 | 1,200 |
| Deferred rent | 15,649 | 14,338 |
| Deferred employee benefits | 12,527 | 11,157 |
| Total liabilities | 89,205 | 79,867 |
| **Net assets:** | | |
| Unrestricted | 45,408 | 30,828 |
| Permanently restricted | 648 | 648 |
| Total net assets | 46,056 | 31,476 |
| Total liabilities and net assets | $135,261 | $111,343 |

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

| | 1997 | 1996 |
|---|---|---|
| | ($000) | |
| ***Changes in unrestricted net assets:*** | | |
| Operating revenue: | | |
| Dues | **$ 55,851** | $ 55,536 |
| Publications and software | **37,276** | 34,860 |
| Professional development and member service conferences | **24,572** | 24,953 |
| Investment and sundry income | **10,704** | 11,157 |
| Professional examinations | **8,587** | 8,052 |
| Contributions | **1,546** | 1,323 |
| Total operating revenue | **138,536** | 135,881 |
| Operating expenses: | | |
| Program services: | | |
| Publications and software produced for sale | **24,630** | 25,308 |
| Professional development and member service conferences | **24,136** | 25,029 |
| Member services: | | |
| Regulation and legislation | **13,510** | 14,559 |
| Technical | **11,956** | 12,392 |
| Publications | **6,283** | 6,763 |
| Other | **6,881** | 3,450 |
| Professional examinations | **8,344** | 8,294 |
| Communications and public relations | **6,386** | 5,405 |
| Support and scholarships | **5,957** | 5,372 |
| Assistance programs | **1,159** | 1,081 |
| Supporting activities: | | |
| General management | **18,993** | 18,227 |
| Organization and membership development | **6,753** | 6,203 |
| Total operating expenses | **134,988** | 132,083 |
| Excess of operating revenue over expenses | **3,548** | 3,798 |
| Gains (losses) on marketable securities: | | |
| Realized | **3,758** | 3,826 |
| Unrealized | **7,274** | (1,565) |
| Totals | **11,032** | 2,261 |
| Increase in unrestricted net assets before cumulative effect of changes in accounting principles | **14,580** | 6,059 |
| Cumulative effect of changes in accounting principles: | | |
| Postretirement benefits | — | (7,493) |
| Marketable securities | — | 3,102 |
| Contributions | — | 243 |
| Totals | — | (4,148) |
| Increase in unrestricted net assets | **14,580** | 1,911 |
| Unrestricted net assets, beginning of year | **30,828** | 28,917 |
| Unrestricted net assets, end of year | **$ 45,408** | $ 30,828 |

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

| | 1997 | 1996 |
|---|---|---|
| | ($000) | |
| ***Increase (decrease) in cash:*** | | |
| Operating Activities: | | |
| Cash received from members and customers | $136,467 | $128,455 |
| Interest and dividends received | 3,349 | 2,965 |
| Cash paid to suppliers, employees and other | (124,671) | (117,789) |
| Interest paid | (62) | (139) |
| Income taxes paid | (592) | (280) |
| Net cash provided by operating activities | 14,491 | 13,212 |
| Investing Activities: | | |
| Payments for purchase of equipment | (2,595) | (4,320) |
| Payments for purchase of marketable securities | (118,190) | (142,050) |
| Proceeds from sale of marketable securities | 106,524 | 136,423 |
| Net cash used in investing activities | (14,261) | (9,947) |
| Financing Activities — payments of long-term borrowings | — | (2,800) |
| Net increase in cash | 230 | 465 |
| Cash, beginning of year | 630 | 165 |
| Cash, end of year | $ 860 | $ 630 |

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

| | 1997 | 1996 |
|---|---|---|
| Increase in unrestricted net assets | $ 14,580 | $1,911 |
| Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities: | | |
| Depreciation and amortization: | | |
| Furniture, equipment and leasehold improvements | 3,888 | 3,389 |
| Internal computer systems | 436 | 975 |
| Gain on sale of marketable securities | (3,758) | (3,826) |
| Amortization of subscription revenue | (255) | (246) |
| Unrealized loss (gain) on marketable securities | (7,274) | 1,565 |
| Cumulative effect of changes in accounting principles | — | 4,148 |
| Provision for: | | |
| Losses on accounts and notes receivable | 332 | 322 |
| Obsolete inventories | 723 | 575 |
| Deferred rent | 1,021 | 1,259 |
| Deferred employee benefits | 1,627 | 1,790 |
| Changes in operating assets and liabilities: | | |
| Accounts and notes receivable | (2,319) | (872) |
| Inventories | (355) | (677) |
| Deferred costs and prepaid expenses | (1,100) | (248) |
| Accounts payable and other liabilities | 2,960 | (922) |
| Advance dues | 2,512 | 2,377 |
| Unearned revenue | 1,440 | 1,656 |
| Deferred rent | 290 | 290 |
| Deferred employee benefits | (257) | (254) |
| Total adjustments | (89) | 11,301 |
| Net cash provided by operating activities | $ 14,491 | $ 13,212 |

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

## 1. SUMMARY OF SIGNIFICANT 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.

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 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, including minority initiatives.

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 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 also 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 investments in equity securities with readily determinable 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 addition, the Institute also adopted Statement of Financial Accounting Standards No. 116, "Accounting for Contributions Received and Contributions Made" (SFAS No. 116), in 1996. In accordance with SFAS No. 116, contributions are recorded as unrestricted, temporarily restricted or permanently restricted when received 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.

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 also limited because the Institute deals with a large number of customers in a wide geographic area. Consequently, as of July 31, 1997, 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 and software used for the Institute's internal reporting and management functions 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.

Certain accounts in the 1996 financial statements have been reclassified to conform with the current year's presentation.

## 2. MARKETABLE SECURITIES

Marketable securities consist of:

| | 1997 | 1996 |
|---|---|---|
| | ($000) | |
| U.S. Treasury obligations | **$20,527** | $19,086 |
| Bonds and notes | **39,821** | 30,963 |
| Equities | **32,730** | 20,331 |
| Total fair value | **93,078** | 70,380 |
| Excess of fair value over cost | **8,811** | 1,537 |
| Total cost | **$84,267** | $68,843 |

Short-term, highly liquid investments are treated as investments rather than cash equivalents and are included in marketable securities.

Investment income consists of:

| | 1997 | 1996 |
|---|---|---|
| | ($000) | |
| Dividends and interest | **$ 3,639** | $2,982 |
| Realized gains | **3,758** | 3,826 |
| Unrealized gains (losses) | **7,274** | (1,565) |
| | **$14,671** | $5,243 |

## 3. INVENTORIES

Inventories consist of:

| | 1997 | 1996 |
|---|---|---|
| | ($000) | |
| Paper and material stock | **$ 437** | $ 602 |
| Publications in process | **607** | 600 |
| Printed publications and course material | **973** | 1,183 |
| | **$2,017** | $2,385 |

## 4. FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Furniture, equipment and leasehold improvements consist of:

| | 1997 | 1996 |
|---|---|---|
| | ($000) | |
| Furniture and equipment | **$24,529** | $22,281 |
| Leasehold improvements | **15,419** | 15,072 |
| | **39,948** | 37,353 |
| Less accumulated depreciation and amortization | **18,391** | 14,503 |
| | **$21,557** | $22,850 |

## 5. LONG-TERM DEBT

Long-term debt consists of a N.J. Urban Development Corporation note bearing interest at 5%, 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 $1,129,000. Based on borrowing rates currently available, the fair value of the note at July 31, 1997 is approximately $850,000.

## 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 $15,649,000 and $14,338,000 as of July 31, 1997 and 1996.

Minimum rental commitments on noncancellable real estate and equipment leases in effect as of July 31, 1997, exclusive of future escalations for real estate taxes and building operating expenses, are:

## YEAR ENDING JULY 31

| ($000) | |
|---|---|
| 1998 | $ 8,969 |
| 1999 | 8,828 |
| 2000 | 8,435 |
| 2001 | 8,169 |
| 2002 | 7,988 |
| Years subsequent to 2002 | 72,499 |
| | $114,888 |

Rental expense for the years ended July 31, 1997 and 1996, was $10,677,000 and $11,050,000.

## 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:

| | 1997 | 1996 |
|---|---|---|
| | ($000) | |
| Service cost — benefits earned during the year | **$ 1,731** | $1,670 |
| Interest cost on projected benefit obligation | **2,463** | 2,266 |
| Return on plan assets: | | |
| Actual | **(5,878)** | (7,431) |
| Deferred | **2,752** | 4,556 |
| Net amortization of unrecognized net asset | **(274)** | (274) |
| Net amortization of unrecognized prior service cost and net gain | **10** | 102 |
| | **$ 804** | $ 889 |

Funded status of the plan:

**MAY 1**

| | 1997 | 1996 |
|---|---|---|
| | ($000) | |
| Actuarial present value of projected benefit obligation, based on employment service to date and current salary levels: | | |
| Vested benefits | **$(28,702)** | $(26,193) |
| Non-vested benefits | **(1,186)** | (1,235) |
| Additional amounts related to projected salary increases | **(5,652)** | (5,088) |
| Projected benefit obligation | **(35,540)** | (32,516) |
| Plan assets available for benefits, at fair value | **46,839** | 42,354 |
| Plan assets in excess of projected benefit obligation | **11,299** | 9,838 |
| Unrecognized net transition asset | **(1,789)** | (2,063) |
| Unrecognized net gain | **(14,209)** | (11,804) |
| Unrecognized prior service cost | **878** | 1,012 |
| Accrued pension cost | **$ (3,821)** | $ (3,017) |

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, prior service costs and net gains 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% as of May 1, 1997 and 1996. The expected long-term rate of return on plan assets used in determining net pension expense was 9% for the years ended July 31, 1997 and 1996. The assumed rate of increase in future compensation levels was 4.75% for the years ended July 31, 1997 and 1996.

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 $628,000 and $500,000 for the years ended July 31, 1997 and 1996.

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

Net postretirement benefit cost for the years ended July 31, 1997 and 1996 is comprised of:

| | 1997 | 1996 |
|---|---|---|
| | ($000) | |
| Service cost | **$ 248** | $ 331 |
| Interest cost on accumulated postretirement benefit obligation | **582** | 570 |
| Unrecognized net gain | **(7)** | — |
| Net postretirement benefit cost | **$ 823** | $ 901 |

The accumulated postretirement benefit obligation as of May 1, 1997 and 1996 consists of unfunded obligations related to the following:

| | 1997 | 1996 |
|---|---|---|
| | ($000) | |
| Retirees | **$3,740** | $2,809 |
| Fully eligible active plan participants | **2,270** | 2,790 |
| Other active plan participants | **2,107** | 1,719 |
| Accumulated postretirement benefit obligation | **8,117** | 7,318 |
| Unrecognized net gain | **589** | 822 |
| Accrued postretirement benefit cost | **$8,706** | $8,140 |

Unrecognized net gains are being amortized over future service years estimated to be 15 years.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.75% in 1997 and 1996.

The weighted average health care cost trend rate used in measuring the postretirement benefit expense was 7.75% in 1997 and 1996, gradually decreasing to 5% 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 $1,124,000 at May 1, 1997 and would increase the annual postretirement benefit expense by $131,000.

The Institute funds the cost of these plans on the cash basis and in 1997 and 1996 paid $257,000 and $254,000.

## 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 1997, the Institute also made a $75,000 payment in support of the work of the GASB.

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 $2,850,000 for the calendar year 1997. 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 1997. 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, 1997 and 1996 follow:

| | Balance August 1, 1995 | Increase | Balance July 31, 1996 | Increase | Balance July 31, 1997 |
|---|---|---|---|---|---|
| | | | ($000) | | |
| Unrestricted: | | | | | |
| AICPA | $22,861 | $ 537 | $23,398 | $ 12,863 | $36,261 |
| Division | 1,712 | 329 | 2,041 | 499 | 2,540 |
| ARA | 836 | 111 | 947 | 150 | 1,097 |
| Benevolent Fund | 2,039 | 554 | 2,593 | 543 | 3,136 |
| Foundation | 1,469 | 380 | 1,849 | 525 | 2,374 |
| | 28,917 | 1,911 | 30,828 | 14,580 | 45,408 |
| Restricted: | | | | | |
| Foundation: | | | | | |
| Library Fund | 648 | — | 648 | — | 648 |
| | $29,565 | $ 1,911 | $31,476 | $14,580 | $46,056 |

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

Setting Our Sights On...

# TOMORROW

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