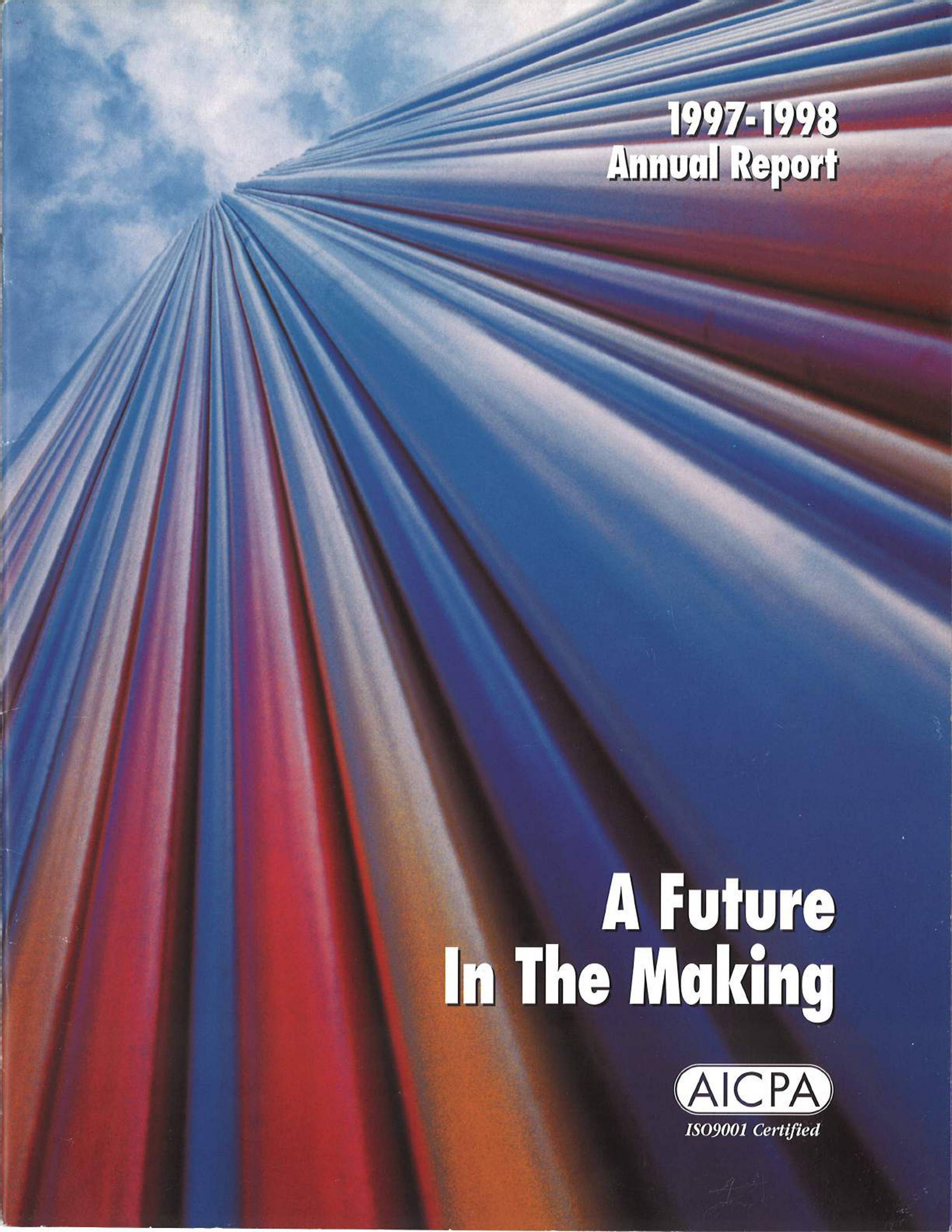
1998

AICPA annual report 1997-98; Future in the making

American Institute of Certified Public Accountants



1997-1998 Annual Report

A Future In The Making

AICPA

ISO9001 Certified

CPA *Vision*
FOCUS ON THE HORIZON

Core Purpose:

CPAs . . . Making sense of a changing and complex world.

Vision Statement:

CPAs are the trusted professionals who enable people and organizations to shape their future. Combining insight with integrity, CPAs deliver value by:

Communicating the total picture with clarity and objectivity,

Translating complex information into critical knowledge,

Anticipating and creating opportunities, and

Designing pathways that transform vision into reality.

Contents*

* Also view the 1997–98 AICPA Annual Report by visiting *AICPA Online* at http://www.aicpa.org.

The Year in Brief

- AICPA Chair Stuart Kessler focuses the Institute on reaching out to the grassroots of the profession to create a new vision that will carry CPAs successfully into the new millennium.

- The CPA Vision Process engages thousands of CPAs nationwide from all segments of the profession in assessing changes in the marketplace and redefining the profession's future while preserving its time-honored commitment to the public interest. The CPA Vision Process is the most extensive initiative ever undertaken in the United States by a profession to reexamine itself and set the course of its future.

- The Institute becomes the first professional membership organization in the U.S. to earn the prestigious ISO 9001 certification from the International Organization of Standards, a distinction awarded for meeting rigorous international standards for quality management and assurance.

- The AICPA launches the first of a new family of assurance services — *CPA WebTrust*℠ — an engagement where Institute-trained and -licensed CPAs review the business practices of a company conducting electronic commerce over the Internet. Companies that pass may be awarded a special *WebTrust* Seal for display on their Web sites.

- The Institute develops the *AICPA Competency Assessment Tool*, a Web-based, interactive program aimed at helping members identify and adopt the competencies needed to achieve their vision for the future. The Tool includes two "Models," one for *The New Finance* and one for assurance services.

- The Center for Excellence in Financial Management (CEFM) joins with the Consortium for Advanced Manufacturing (CAM-I) and the University of Akron/Institute for Global Business to study best practices in target costing on an international scale.

- To further explore and develop the discipline of *The New Finance*, the Institute partners with the research foundation of the Society of Management Accountants of Canada (SMAC) to help identify *New Finance* topics for development and contribute technical expertise to research efforts.

- The first examination for the Accredited in Business Valuation (ABV) accreditation designation is administered, certifying 520 CPAs with the new ABV credential, which can be appended to "CPA" for professional identification.

- The Institute begins a revamping of Continuing Professional Educational (CPE) offerings, moving from an "input-based" system gauged by hours logged to an "outcome-based" system focused on knowledge acquired.

- The Institute issues a report, *The Year 2000 Issue — Current Accounting and Auditing Guidance*, that clarifies the auditor's role in the "Y2K" issue for the publics with whom auditors do business.

- The AICPA and the National Association of State Boards of Accountancy (NASBA) approve significant changes to the *Uniform Accountancy Act (UAA)* that incorporate the recommendations of the AICPA/NASBA Joint Committee on Regulation of the Profession and take into account the realities of practice across state lines and in alternative firm structures.

- The Securities and Exchange Commission (SEC) formally recognizes the Independence Standards Board (ISB) as the standard-setting body designated to develop independence requirements and offer guidance to auditors of publicly held companies.

- Legislation is passed to restructure the Internal Revenue Service (IRS), implementing several Institute recommendations.

- The Institute succeeds in stopping legislation that would have drastically altered the private-sector standard-setting process used by the Financial Accounting Standards Board (FASB) to establish Generally Accepted Accounting Principals (GAAP).

- *AICPA Online*, the Institute's Web site, is rated the second most used accounting-related Web site, following that of the IRS, in an *Accounting Today/Accounting Today Marketplace* poll of tax and accounting practitioners. It also embarks on a significant restructuring to improve member-friendly service.

- The Private Companies Practice Section becomes the PCPS/Partnering for CPA Practice Success, the AICPA Alliance for CPA Firms, implementing the most sweeping changes to the section in its 20-year history, with enhanced marketing orientation and redefined membership requirements.

- The Institute steps up its collaborative efforts with the National Association of Black Accountants (NABA) and the American Association of Hispanic CPAs (AAHCPA) to support their members' efforts to be successful in the profession.

- The award-winning AICPA Image Enhancement Campaign enters its third year, focusing on new CPA services.

- A new, separate *CPA WebTrust* National Advertising and Communications Campaign is introduced, targeting the consumer and the Web site developer/owner to build consumer awareness of the *WebTrust* service as well as generate leads for CPAs who offer the service.

- A new advertising campaign, targeted at attracting minority high school and early college students into the profession, is launched.

- A comprehensive Institute study — *Understanding Social Security: The Issues and Alternatives* — is initiated to survey proposed reforms to the Social Security system and how they will affect the economy as well as Americans' finances.

- The Joint AICPA/NASBA Committee for Computerization of the CPA Examination develops a working model toward achieving a computerized exam by 2003.

- *Room Zoom: The CPA SourceDisc*, the interactive CD-ROM aimed at recruiting students into the profession, is significantly revamped to offer expanded features and technological upgrades.

- The Institute forms an alliance with the American Accounting Association (AAA) to enhance efforts to effect change in accounting education, particularly in faculty development.

- The 150-hour continuing professional education requirement is now law in 44 states.

- A new AICPA International Strategy Committee is established to develop and implement strategic initiatives in the increasingly important arena of international standard-setting.

- The Institute introduces the concept of Knowledge Management to its organizational structure, creating a new position, Vice President of Knowledge Management and Strategic Planning, to serve as the AICPA's chief knowledge officer.

- *AICPA Online* establishes a password-protected "Committee Central" section, introducing the concept of the "virtual committee" by which members can share their thoughts online at any time.

- The Institute's Tax Information Phone Service (TIPS) becomes an around-the-clock member service through the 24-Hour TIPS Fax Hotline.

- The AICPA Board of Directors approves a break-even fiscal 1999 budget that includes some significant new or expanded initiatives, keeping dues unchanged for the fifth successive year.

Message from the Chair & President

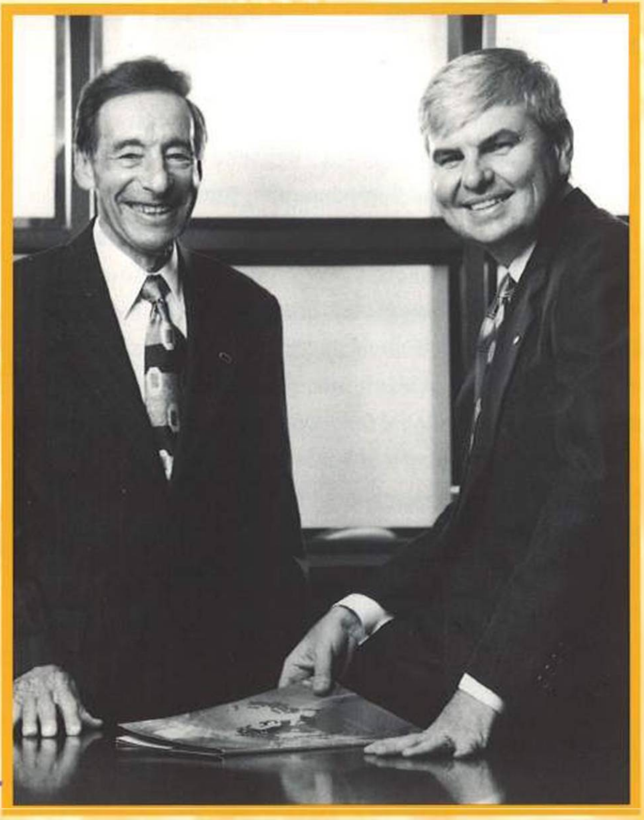
"The best way to predict the future is to create it," says organizational management expert Peter Drucker. That's precisely what the CPA profession has done this year by confronting head-on major political, economic, social, technological and regulatory forces that are challenging the CPA and the financial services marketplace. In the pages that follow, we're pleased to describe a year of significant AICPA initiatives aimed at helping the profession prepare for success in this new environment.

Technology has rewritten the "rules of business," leaving far behind those who do not harness it and effectively integrate it. Right now, corporations and firms are conducting business in a world of commerce that is global, technological, instantaneous and increasingly virtual. The leadership they require from both internal and external advisors and the assurance they seek demand new insights, new skills and extraordinary agility. At the same time, the number of new, non-CPA competitors, not bound by the profession's codes of standards and ethics, is increasing at an alarming rate.

In this complex and borderless marketplace, CPAs who are willing to step up to change will find almost unlimited opportunities to expand their skills, competencies and services while preserving their commitment to the public interest. That message rings out loud and clear from the CPA Vision Process, the most extensive initiative ever undertaken in the United States by a profession to assess forces of change, reexamine itself and set the course for its future.

The Vision Process is at the heart of what has been a pivotal year for the CPA profession. It's been a year of looking inward in order to move forward. It's been a year of mixing self-examination with collective wisdom, of blending thoughtful reflection with shared imagination as we work to forge a new, shared vision of a new CPA. It is a vision comprehensive in scope, unified in spirit, yet flexible in application, created by and for all segments of the profession.

Having reached out to the four corners of the profession, we must continue to explore the dimensions of our own thinking and of our professional lives to make the future we envision a reality. It's the only way, moving forward, to ring in the new millennium with timeless success and opportunity for the CPA.



1997–98 AICPA Chair Stuart Kessler, left, and President & CEO Barry C. Melancon

Stuart Kessler
Chair

Barry C. Melancon
President & CEO

A Future in the Making

A report on the year at the American Institute of Certified Public Accountants (AICPA) is a story of engaging the future on behalf of members for the success of the CPA profession in a rapidly changing world. As you read this report, you'll notice how we've made looking forward integral to every initiative — from spearheading the CPA Vision Process to employing technology in member service to addressing regulatory challenges posed by new marketplace realities. On many fronts, change has driven significant accomplishments.

The CPA Vision Process

The CPA Vision Process, supported jointly by the AICPA and state CPA societies, directly engaged CPAs from all areas of the profession in defining the future, for themselves and on behalf of those they serve. CPAs across the nation banded together to discuss, debate and collectively determine how the profession needs to evolve to retain its premier position in the global community of the 21st Century. Approximately 3,400 members running the gamut of professional functions — including CEOs, CFOs, managing partners, accounting professors, sole practitioners, staff accountants and government regulators — devoted a combined total of more than 21,000 hours (that's 13 work years) to identify both challenges and opportunities for the profession in 2011. They convened in a series of "Future Forums," professionally facilitated by international visioning experts and organized geographically, as well as by specialties and demographic groups, such as educators, women and minority members.

The process brought some surprises and some important insights. CPAs have far more in common than they realized, regardless of the segment in which they ply their profession. The challenges of education, both pre- and post-CPA examination, are the same whether for a sole practitioner or a CFO. Demands to meet public, customer, employer and client needs are founded in the same driving forces across the profession. Diversity remains a challenge, but also an opportunity to leverage the 360-degree view of the business and economic marketplace that CPAs serve.

Culminating the series of grassroots forums was a National Future Forum at which a core group of CPA delegates collaborated on the key elements of a Core Purpose Statement and a Vision Statement. Also identified by consensus were the top five key values, services, competencies and issues that will help define the profession's future.

Following formal adoption of the CPA Vision by the AICPA Council in October 1998, the AICPA and state CPA societies will begin translating the vision elements into strategic objectives and targeted programs designed specifically to extend the reputation and integrity of the CPA and support members of the profession in meeting challenges along the way.

The CPA Vision Process

CORE VALUES

Continuing Education and Life-Long Learning

Competence

Integrity

Attuned to Broad Business Issues

Objectivity

CORE SERVICES

Assurance and Information Integrity

Management Consulting and Performance Management

Technology Services

Financial Planning

International Services

CORE COMPETENCIES

Communications and Leadership Skills

Strategic and Critical Thinking Skills

Focus on the Customer, Client and Market

Interpretation of Converging Information

Technologically Adept

Protecting Information Integrity

Topping the list of core services identified in the CPA Vision Process were those services that aim to improve the quality of information or its context for businesses or individual decision-makers. Labeled as "Assurance and Information Integrity," this broadly defined category underscores the unique opportunity CPAs now have to serve a world desperate for sound information and judgment.

For CPAs working in business and industry, the coming years will see them solidifying their base of business operational and tactical skills, while simultaneously expanding their roles in corporate strategy, performance management and decision-making processes. This rapidly growing segment of CPAs will increasingly be sought out as critical members of the management team who focus on process, desired results and outcomes.

For those in public practice, the opportunities in assurance services likewise abound. *CPA WebTrust*℠, the first of a new family of assurance services, was rolled out this year. Specially trained CPAs, who are licensed by the Institute, apply a series of *WebTrust* principles and criteria to assess the reputation of a company that engages in electronic commerce. Those principles and criteria, developed jointly by the AICPA and the Canadian Institute of Chartered Accountants (CICA), include business practice disclosures, controls over the completion of the transaction, and the security and privacy of a consumer's personal information. Only those companies that pass the examination earn the distinction of posting a *WebTrust* Seal on their sites. *WebTrust* is a powerful example of how the profession is leveraging its traditional values and skills into exciting, new market-driven venues that also serve the public interest.

On deck as the second new assurance service is *CPA ElderCare Services*, through which CPAs will monitor the work of other professionals delivering care to the elderly, including healthcare and broad financial advice.

A New Set of Competencies

Assurance services and information integrity reflect an important question driving much of the redefining of the CPA profession: how do we take the qualities unique to the CPA and apply them to broader market- and employer-driven demands and opportunities? The answer lies, in part, in extending the profession's "competencies" into new areas.

To help members of the profession explore the competencies they need, as well as increase their proficiency with them, the Institute has developed the highly interactive *AICPA Competency Assessment Tool*. The *Tool* and underlying competency models, pilot tested this year, provide detailed and individualized guidance to CPAs in identifying and measuring a diverse set of competencies categorized by personal attributes, leadership qualities, broad business perspective and functional expertise. There are two competency models, one for *The New Finance* (a multi-disciplinary knowledge system identified by the Institute on behalf of members in business and industry) and another for assurance services. Flexibility is built into the models, allowing for modification based on changing professional demands. New areas of functional expertise will be developed as the models mature.

The New Finance

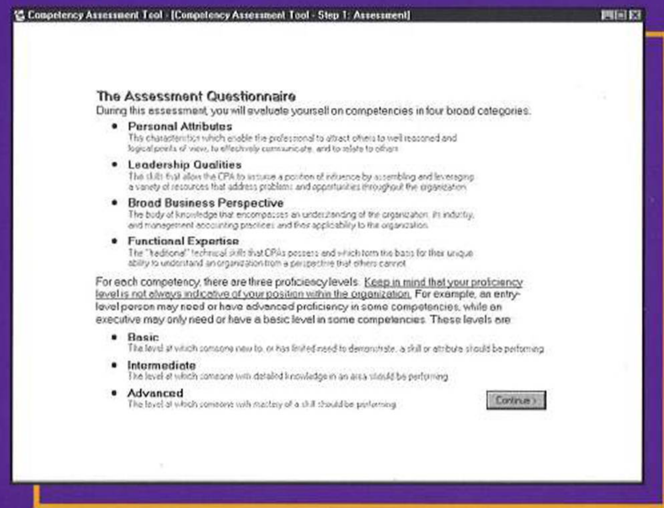
It is no coincidence that *The New Finance* is one of the inaugural components of the *Competency Assessment Tool*. Defining the cutting edge in knowledge for members in business and industry, *The New Finance* refers to the disciplines needed by those CPAs who, as members of their organizations' senior management teams, are being called on to provide technical expertise for strategic and tactical decision-making. Encompassing management of process, technology and resources, as well as technical competence, innovation and a broad understanding of business issues, *The New Finance* is rapidly becoming the standard for CPAs in business and industry.

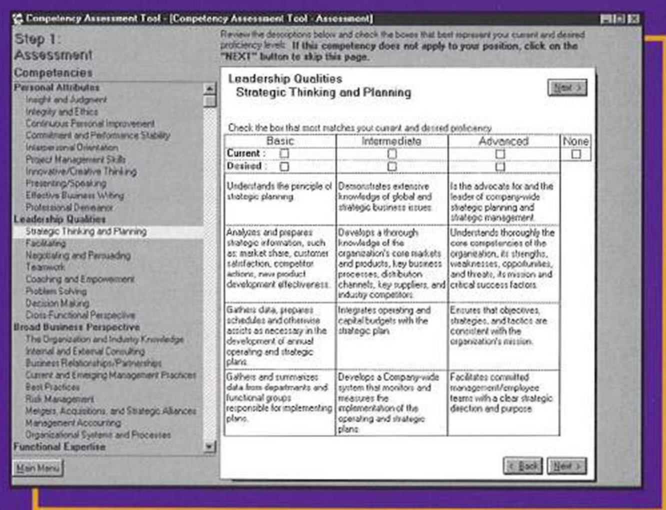
In an effort to further explore and develop this important new body of knowledge and to support the *New Finance* professional, the Institute continues to engage in research initiatives that deliver relevant value for members in business and industry. The Institute this year became a partner in the research foundation of the Society of Management Accountants of Canada (SMAC). Under this partnership, AICPA members can now help identify *New Finance* topics for further development and contribute their technical expertise to the research.

In addition, the Institute's Center for Excellence in Financial Management (CEFM) joined this year with the Consortium for Advanced Manufacturing, International (CAM-I) and the University of Akron/Institute for Global Business to create a study, international in scope, to identify best practices in the discipline of target costing. A strategic cost management tool, target costing zeroes in on the voice of the customer and marketplace influences in setting goals for a product's sales price, gross margin and cost to manufacture.

Another best practices study, on the use of procurement cards, or "p-cards," has been launched with funding by CEFM. Essentially credit cards, p-cards are used for the purchase of supplies and other relatively small purchases to free a company's purchasing department from spending time on "low-ticket" items, allowing more time to focus on competitive pricing for higher dollar items.

The Institute also continued its senior executive outreach program this year with meetings in New York, Denver and Seattle. These meetings allow senior executives an opportunity to interact with other executives to make them aware of professional issues and what the AICPA is doing in connection with those issues. In addition, the program also provides an opportunity for dialogue that contributes to a broader understanding of the issues of importance to corporate leaders to help them set their strategic agendas.





***The New Finance Industry Model* is one of two models included in the *AICPA Competency Assessment Tool*, a highly interactive Web-based software program that will help CPAs identify and measure a diverse set of competencies categorized by personal attributes, leadership qualities, broad business perspective and functional expertise to prepare them for their new roles in the new marketplace.**

Life-Long Learning

In a continuing commitment to align everything the Institute does for members with the Vision Process, the AICPA is reexamining the conceptual approach to continuing professional education.

The CPA's reputation as gatekeeper of the public trust demands that we stay current and professionally vibrant despite an ever-accelerating increase in the rate and pace of change. In the years ahead it is less and less likely that simply logging hours in learning activities will do the job. Instead, learning will be multimedia, multi-dimensional and interactive. Time on and off the job will be replete with opportunities to increase skills, competencies and knowledge in an ever-changing world. Since present educational models will fall short of future needs, the Institute is recasting traditional CPE to encompass more adequately what is learned and applied in the CPA's day-to-day professional life. The CPE Standards Sub-committee is already working to coordinate efforts with the National Association of State Boards of Accountancy (NASBA) to modify existing standards to incorporate the new concepts.

This commitment by the Institute to broaden professional opportunities for learning will enable members in all areas of the profession to expand their capabilities in ways that meet their personal and professional objectives while ensuring the protection of the publics they serve. Consequently, mere regulatory compliance will give way to true expansion of knowledge and capabilities.

Equally committed to expanding the scope of learning in academia, the Institute this year joined the American Accounting Association (AAA) to form an alliance to augment ongoing efforts to effect change in accounting education. As one of its primary objectives, the alliance will focus on faculty development, creating new competencies among teachers in line with the professional requirements of the CPA's unfolding new future.

Accreditation

Accreditation in professional specialty areas is a vital response to a predominantly service-driven marketplace which will become even more so during the next 15 to 20 years. With a universe of new knowledge becoming essential to marketplace demands, specialization becomes an important adaptation as well as a marketing tool.

The Institute's Special Committee on Accreditation of Specialization reached this conclusion in its final report this year, establishing a formal process for the accreditation of specialized practice areas. That process has been approved by the AICPA Council.

The first new accreditation examination was administered this year, resulting in 520 CPAs becoming the first "Accredited in Business Valuation" designation holders. They can now add the "ABV" credential to their "CPA" designation after their names. Other specialty accreditations will be studied by the new National Accreditation Commission, an AICPA committee.

International Standards

It has become singularly clear to the Institute that the CPA profession stands to lose, and lose big, unless we assert our rightful place in today's global economy. And, the grassroots is behind this position, with participation in the international arena being named one of the top five core services.

While the blurring of national borders as barriers to commerce is not a phenomenon limited to the CPA profession, its impact is particularly complex because of the strict regulatory principles that must be maintained. During this past year, the Institute took a number of concrete steps to expand the influence of the AICPA and the profession in the international community. The AICPA continues to serve on the International Accounting Standards Committee (IASC), which released an exposure draft positing the first set of international rules on financial instruments, the final element in its revision of its core standards (International Accounting Standards). The Committee hopes eventually to gain recognition for its standards by the United States, which is one of only three major markets not using them, along with Canada and Japan. Also, the IASC is looking at its structure, funding and future role in attempting to be the source of accounting standards accepted worldwide.

Other initiatives aimed at expanding the profession's international involvement, including a new AICPA International Strategy Committee, a new senior staff position, Director of International Affairs, and a new International Auditing Standards Subcommittee under the Accounting Standards Board (ASB), will support existing Institute efforts, such as membership in the International Auditing Practices Committee of the International Federation of Accountants (IFAC), as well as work with other countries' standard setters.

An Evolving Regulatory System

The global economy is just one manifestation of the intrinsically varied business milieu facing today's CPA. Demographic shifts, legal challenges to the current regulatory system, information technology and the blurring of competitive as well as geographic boundaries are upsetting the CPA's traditional professional world.

Continuing to address this evolving regulatory challenge, the AICPA and NASBA this year incorporated a series of recommendations to change the model *Uniform Accountancy Act* (*UAA*). The changes to the *UAA* define regulatory provisions for alternative practice settings by multi-faceted financial services providers. For example, the revised *UAA* would allow CPAs to deliver certain of their services in non-CPA firms; however, attest services would remain restricted to practice in a licensed firm where at least a majority of the ownership interests belong to CPAs. The concept of "substantial equivalency" would permit CPAs to practice temporarily, either physically or electronically, in other states where the certification criteria essentially duplicate those in the *UAA*. Finally, the *UAA* would permit the use of the CPA designation by all CPAs in all professional settings, including business and industry, government and education, as well as public practice.

Successful adoption of a revised *UAA* by all states would greatly contribute to maintaining the public interest in the attest function while establishing a level playing field in the marketplace for non-attest services.

Continued Self-Regulation

Change will be a constant companion for the profession during the years ahead. The Vision Process actively embraces the demands that change will place upon us. However, accompanying our willingness to change is our insistence that regulation of professional standards be kept in the private sector. For example, a positive signal this year was an address by Securities and Exchange Commission (SEC) Chairman Arthur Levitt in which he called for closer cooperation between the Commission and the CPA profession in a number of areas related to audits of public companies. He also praised the profession's efforts to defeat legislation that would have drastically altered the private-sector standard-setting process. This year, in fact, the SEC formally recognized the Independence Standards Board (ISB), established jointly with the AICPA in May 1997, as the standard-setting body designated to develop independence requirements and offer guidance to auditors of publicly held companies.

Knowledge Management

The knowledge curve — what we know, what we need to know and what others already know — is ballooning at an unprecedented pace. At the same time, technology is making the accessibility and interactivity of that knowledge both a competitive prerequisite and a business opportunity for CPAs.

Knowledge management is a proven and effective methodology for staying on top of the knowledge curve. It helps organizations make the most of their resources by identifying, creating, capturing and leveraging knowledge. It is a vital tool for enhancing organizational performance, customer service and marketplace competitiveness. In short, it is a means of adding value to an organization's products and services by applying technology, human expertise and intelligence.

The Institute, recognizing the need for our staff and the profession to leverage communal knowledge, gave knowledge management a prominent place in its organizational thinking and structure this year. Under a Vice President of Knowledge Management and Strategic Planning, who also serves as the Institute's chief knowledge officer, a newly defined team will coordinate and align the Institute's knowledge management and strategic planning efforts. The team will be charged with building systems and environments for collecting, assessing, compiling and accessing the broad base of knowledge already housed in the minds and databases of member volunteers and employees.

These efforts will have a two-pronged thrust — technology and organizational culture. On the technology side, the team will focus on developing the systems and connectivity needed for employees to share and collaborate. The culture prong will develop organizational strategies and structures that encourage employees to share and collaborate, as well as align such efforts with the implementation of the new CPA Vision.

In addition, a cross-functional Technology Advisory Team has been established to serve as a nerve center of information and service on technology use both internally and on behalf of members. As such, it will proactively promote information sharing and skills development for using current and future technology for efficient internal and member use, as well as identify, communicate and facilitate adoption of staff technology needs.

Technology

Technology is changing how we live and work in ways thought unimaginable just a few short years ago. In the workplace, it has become an overarching influence that affects just about every facet of professional life. The inescapable role of technology in the CPA's future rang out in the Vision Process, ranking second only to assurance and information integrity as a core service.

Grabbing the reins of a potentially runaway technological problem, the AICPA took an active position in addressing public concern over the "Year 2000" or "Y2K" issue. To get members up to speed for the benefit of their clients and employers as well as the publics who rely on such systems, the Institute released a groundbreaking study which has been very well received — *The Year 2000 Issue — Current Accounting and Auditing Guidance*. The study clarifies the auditor's role in addressing the Y2K problem, providing guidance on communications with clients and employers, as well as describing certain practice-management issues. The Institute also ran a series of articles on the topic in *The CPA Letter*, introduced a special resource page on *AICPA Online*, the Institute's Web site, and created other supporting publications for members. Additionally, the AICPA successfully encouraged the SEC to issue additional disclosure guidance for investors on specific Y2K assessment and remediation efforts by U.S. public companies.

For the eighth year running, the Institute conducted its Top 10 Technologies laboratory, with broader-than-ever participation by CPAs from all member constituencies. The resulting *Top 10 Technologies* book has reached new heights of distribution, with purchase by a major, national CPA firm for use in its internal staff training programs. State CPA societies also used the publication in conferences across the country, and a corresponding videotape was distributed to all Information Technology section members.

Applying technology to tradition, the Joint AICPA/NASBA (National Association of State Boards of Accountancy) Committee for

Computerization of the CPA Examination moved closer this year to its goal of achieving a computerized exam by the year 2003. They already have developed a working model and are conducting research and development efforts using that model.

Member Service

Technology also has taken center stage in the AICPA's member service efforts this year. The hugely successful Institute Web site, *AICPA Online*, gained the distinction of being the second most visited of all accounting-related sites, next to that of the IRS, in an *Accounting Today/Accounting Today Marketplace* poll of tax and accounting practitioners. *AICPA Online* also has begun a significant restructuring that, in addition to an entirely new look and better navigation tools, will feature special "members only" sections, e-commerce capabilities, an enhanced search engine and a content management component for direct publishing to the site. In addition, a special "PFP Forum" for members and the general public has been introduced.

"Committee Central," a special password-protected page on *AICPA Online*, has been launched this year, introducing the concept of the "virtual resource panel" or "virtual committee" on a pilot basis. Members who requested but were deferred for committee membership for certain committees due to limited openings can contribute their thoughts and opinions electronically at any time.

Beyond *AICPA Online*, special consumer-targeted Web sites have gone online this year. In the personal financial planning area, *www.cpapfs.org* offers visitors information about PFP topics and the CPA/PFS accreditation, as well as identifies CPA/PFSs in their geographic areas. For the *CPA WebTrust* Service, *www.cpawebtrust.org* carries information on the service of interest to consumers, potential clients and Web site developers.

Among other member-service initiatives, the Institute has extended the Tax Information Phone Service (TIPS) to around-the-clock operation through TIPS's 24-Hour Fax Hotline. Members can request a TIPS Fax Cover Sheet and submit their questions for an answer by one of the TIPS team's experienced tax professionals within one business day.

The AICPA has set up a new toll-free Member Satisfaction Voice Mail Box for member messages regarding programs, products or services. Also, the Institute has installed "must answer" lines for all its staff teams so that members are more likely to speak to a person who can help them, rather than having to leave a voice-mail message.

To test the delivery of effective member service, the Institute established a "mystery shopping" program. A third-party vendor randomly places 200 calls monthly to Team AICPA members to test their customer service skills. Results so far have been very positive. Fully 94% of calls were properly transferred, 96% of must-answer calls were taken by another team member, and 82% of extensions offered correct and up-to-date voice-mail messages.

PCPS/The AICPA Alliance for CPA Firms

Responding to dramatic new dynamics in the practice of public accounting, the Private Companies Practice Section (PCPS) adopted some of the most sweeping changes in its 20-year history. Under a new name — PCPS/Partnering for CPA Practice Success, the AICPA Alliance for CPA Firms — it is committed to a new, more market-driven mission. The section will now focus less on regulatory issues and more on the services and competencies which will be required of CPAs in the years ahead. The new name and mission reflect the fact that while privately held companies still dominate the client base of PCPS members, the umbrella of services has been broadened to include public companies, not-for-profits and government entities.

Accompanying this expansion of mission and services is a redefinition of membership requirements. Firms can now enjoy membership without such prerequisites as "super majority" CPA ownership, an annual report, separate and additional CPE requirements or peer reviews conducted exclusively by another section member.

Broadening the Profession

With last year's sweeping Diversity Commitment Statement in hand, the Institute continues actively to strengthen the participation of the minority community in the profession. Committed to implementing strategies that foster diversity both within the Institute and the profession, a new Diversity Task Force was established. The task force's major initiatives will include recruiting and maintaining a diverse professional staff, expanding representation on AICPA voluntary bodies such as committees, the Board of Directors and Council, facilitating the removal of barriers to individual achievement and encouraging the profession to embrace diversity as a professional imperative.

A more aggressive outreach to minority high school and early college students marked the ongoing work of the Institute's Minority Initiatives Committee this year. Pivotal in this effort will be a formal advertising campaign, slated to launch in the fall of 1998, which features movie and television celebrities and sports figures accompanied by their CPAs. The underlying message is the importance of a CPA to the stars' financial well-being. The campaign will carry the tagline "Be a star in business. Be a CPA."

Also reaching new levels this year is the ongoing collaboration between the Institute and the National Association of Black Accountants (NABA) and the American Association of Hispanic CPAs (AAHCPA). Through this intensified collaboration, the Institute has been able to identify more qualified candidates from minority groups for involvement in a variety of Institute activities including AICPA committee service and the mentoring program. The Institute also underwrote more grants than ever for college residency programs, offered through state societies and minority accounting organizations, which enable minority high school students to attend college preparatory programs.

Focusing on the recruitment and retention of women in the CPA profession, the Women & Family Issues Executive Committee completed its second survey of women in public practice this year. Assessing the family-friendly policies of public accounting firms, the survey demonstrates the necessity of flexible work arrangements if firms intend to attract and retain the best and the brightest in the profession.

Marketing Tomorrow's CPA

The Institute's award-winning AICPA Image Enhancement Campaign, completing its third successful year, focused on new CPA services as it begins incorporating the results of the CPA Vision Process into the profession's unfolding new image. The campaign this year features two new print ads and three new radio ads, acknowledging the importance of having CPAs in strategic decision-making roles at senior management levels, as well as demonstrating the CPA's unique value in offering integrated technology solutions for businesses.

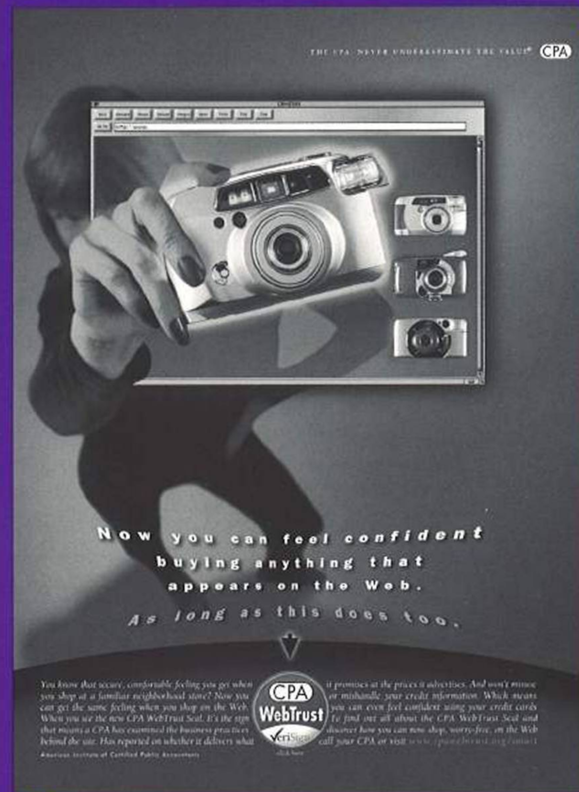
To align the visioning initiative with the Image Enhancement Campaign, the AICPA continues to focus on the evolution of the "CPA Brand," or professional identity system. Now in its strategic development stage, the process involves testing various positionings and brand attributes in a series of external audience focus groups held around the country. Once refined and finalized, the positioning and CPA Brand strategy will become integral to all advertising and communications initiatives emanating from the Institute on behalf of the profession.

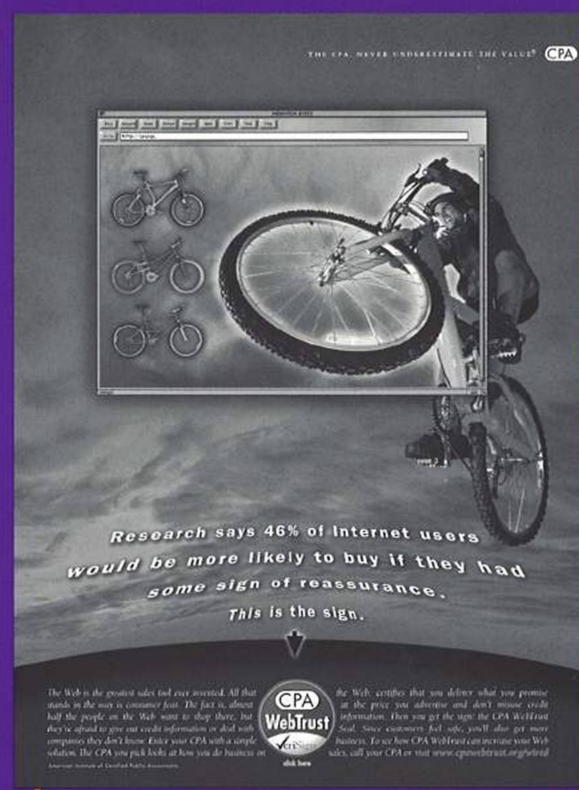
Supplementing the image campaign this year is a new and separate *CPA WebTrust*℠ National Advertising and Communications Campaign. The *WebTrust* campaign targets both the consumer and the Web site developer/owner to build awareness of the *WebTrust* Seal and its value, cultivate credibility for the CPA profession in the Internet environment and generate leads for CPAs offering the *WebTrust* Service. Other supporting activities include *www.cpawebtrust.org*, electronic banner ads on the Internet, exhibits at major national trade shows, marketing materials for CPAs to distribute in local communities, and a radio ad.

Winning in Congress

As the 105th Congress draws to a close, the AICPA caps two years of hard work as the profession's voice on Capitol Hill with successes in all its major initiatives.

Among the most vital and visible examples of the Institute's efforts is passage of the Internal Revenue Service restructuring bill. During every step of the two-year process, the Institute pushed hard for an improved IRS management structure, better taxpayer service, stability and simplification of the tax law and strengthened taxpayer rights. Many of the profession's recommendations became law, among them the extension of taxpayer





The CPA WebTrust℠ National Advertising and Communications campaign aims to build awareness of the WebTrust Seal and its value, cultivate credibility for the CPA profession in the Internet environment and generate leads for CPAs offering the WebTrust service.

confidentiality to tax advice from CPAs in non-criminal proceedings, a complexity analysis procedure for pending tax legislation, the prohibition of "lifestyle audits," an oversight board for the IRS and a fixed five-year term for the IRS Commissioner.

Holding the line on what could be a major blow to the U.S. capital market's reliance on a comprehensive and transparent business reporting model, the Institute helped stop proposals in both houses of Congress that would have drastically altered the standard-setting process used by the Financial Accounting Standards Board (FASB) to establish Generally Accepted Accounting Principles (GAAP). The Institute continues adamantly to oppose the measures and maintains that accounting standards should continue to be set by the private sector.

Two years after adoption of the Private Securities Litigation Reform Act of 1995, CPAs once again found themselves facing increased liability exposure at the hands of plaintiffs' attorneys sidestepping the law by bringing suit in state courts, where the statute does not apply. In so doing, they circumvented important reform measures, including the "safe harbor" provision for forward-looking statements, joint and several liability reform, a ban on the use of "professional plaintiffs," the elimination of bounty payments and reasonable limits on attorneys' fees. The 1995 coalition, made up of the National Venture Capital Association, the American Electronics Association, the Securities Industry Association, high-technology companies, the Institute and others went back into action this Congress and succeeded in driving through corrective legislation, expected to be signed into law, which would allow class-action securities suits filed in state courts involving more than 50 people to be removed to federal court.

Responding to the National Credit Union Administration's refusal to modify its rule that allowed the use of non-licensed individuals to audit credit unions' financial information — a procedure which is in direct violation of most state accountancy laws — the AICPA took its arguments to Congress that the rule harms the public interest and places the share insurance fund at risk. Congress agreed with the CPA profession and passed legislation that requires large credit unions to use audits and, in the case of supervisory audits, to utilize licensed professionals. Included in the law was AICPA-sponsored language requiring that when credit unions hire outside people to perform the audits, they should be trained by the appropriate state or jurisdiction.

The Institute also initiated a comprehensive study to be released this fall of the Social Security system and efforts being debated in Washington to change it. The study — *Understanding Social Security: The Issues and Alternatives* — will survey proposed reforms to the system and their potential impact on American's finances and the economy going forward.

Quality Recognition

The Institute has a hard-earned and uninterrupted track record for quality and integrity. In recognition of our uncompromising commitment to superior service to our members, the AICPA has become the first professional membership organization in the U.S. to attain the prestigious ISO 9001 certification from the International Organization of Standards.

Attainment of this elite certification was achieved only after an intensive organization-wide quality standards audit which applied a series of rigorous international quality management and assurance criteria. The certification confirms our values, commitment to member service and goal of providing the highest quality products, services and support possible, as well as becoming the nation's premier membership organization, bar none.

As a service to members, the Institute also introduced seminars to prepare CPAs to become ISO 9000 auditors for their organizations and clients. Becoming ISO 9000 auditors is a natural extension of the CPA's traditional services, building upon a reputation for integrity and broad-based business knowledge.

Looking Inward, Marching Forward

The past year has been a groundbreaking one for the Institute and the CPA profession — and, by all indicators, the first of many. The Vision Process has laid a new foundation for constructing the CPA's future. To build on that base, we need to look inward, at what intrinsic value the CPA designation brings to the competitive table and march forward to new opportunities amid a sea of new competitors in an ever-changing, less-forgiving marketplace.

With the common focus of the Vision and Core Purpose Statements and the guidance of the key values, issues, services and competencies, the profession has begun to create its own future. The time has come to pierce professional complacency and maintain a compelling sense of momentum and direction. Defining that future will be an ongoing process accompanied by both change and discomfort in the interest of the good of the profession and the public. By the very nature of the process, there are no boundaries or limits. However, we must work hard together to set our own parameters and, then, go beyond them. In short, ours is a future in the making.

Sources and Occupations of AICPA Membership

	1986	1988	1990	1992	1994	1996	1998
Total AICPA Membership (excluding student and other affiliates)	240,947	272,479	295,633	308,280	318,829	328,214	332,355
Public Accounting	49.1%	46.5%	44.5%	42.6%	41.3%	40.4%	39.6%
Business & Industry	39.5%	39.6%	40.4%	40.6%	40.9%	42.3%	43.9%
Education	2.8%	2.7%	2.7%	2.4%	2.4%	2.4%	2.4%
Government	3.2%	3.6%	3.7%	4.1%	4.4%	4.4%	4.4%
Retired & Miscellaneous	5.4%	7.6%	8.7%	10.3%	11.0%	10.5%	9.7%
Membership in Public Practice	118,226	126,771	131,508	131,306	131,630	132,617	131,627
Firms with one member	25.1%	24.8%	24.3%	23.6%	23.5%	22.9%	23.5%
Firms with 2–9 members	34.3%	33.6%	34.3%	35.5%	36.5%	36.4%	35.8%
Firms with 10 or more members, except the 25 largest firms	15.0%	16.4%	17.6%	19.8%	19.9%	20.8%	20.5%
25 largest firms	25.6%	25.2%	23.8%	21.1%	20.1%	19.9%	20.2%

Management's Discussion and Analysis

The year was noteworthy for new and innovative initiatives. The Institute continued its strong commitment to the public interest and increased its efforts to reposition the profession for the 21st century. Major initiatives included: the Vision Process; expansion of service opportunities in the form of CPA WebTrust[SM] and significant progress on three additional assurance service products — CPA ElderCare Services, Systems Reliability and Business Performance Measures; formation of the Independence Standards Board (ISB); major changes to the Uniform Accountancy Act (UAA); expansion of the Center for Excellence in Financial Management (CEFM), including development of a competency model and management accounting research; and significant legislative activities. Demonstrating its commitment to quality and continuous improvement, the Institute became ISO 9001 certified, the first professional membership organization in the U.S. to attain this distinction.

As shown in the financial statements, operating expenses exceeded revenue (including interest and dividends) by approximately $2.3 million in 1998 as compared to a $3.5 million excess of operating revenue over expenses in 1997. The 1998 results, which include the new and expanded initiatives noted above, reflect the Institute's commitment to apply resources to member programs and services, as well as invest in technology-related activities. Realized and unrealized gains (losses) on marketable securities were $11.1 and ($6.7) million, respectively, in 1998, as compared with $3.7 and $7.3 million, respectively, in 1997. The 1997 results reflect the extremely favorable market conditions experienced throughout that year, while the 1998 results reflect the realignment of the investment portfolios during the year to comply with a revised asset allocation structure developed to better manage changing market conditions. The portfolio realignments resulted in the realization of previously unrealized gains.

Operating revenue was $143.3 million in 1998 and $138.5 million in 1997. The increase in 1998 dues ($1.5 million) was the result of the increase in SEC Practice Section ("SECPS") firm dues to support the work of the ISB, combined with a modest increase in member dues revenue related to membership growth. There were no individual dues rate increases during the year. Publications and software revenue grew $1.2 million, while the related expenses decreased by $.7 million due to cost savings associated with printing and paper combined with increased sales of products with lower cost components.

Operating expenses of $145.6 million in 1998 reflect an increase of $10.6 million from 1997. Expenditures for the Vision Process and its implementation, CPA WebTrust, and Knowledge Management were major components of the member services increase. In addition, the Institute continues to make significant investments in standard setting and public interest activities which include the Auditing Standards Board, the Accounting Standards Executive Committee, the ISB, professional ethics enforcement and peer review programs. Total costs for Regulation and Legislation and Technical activities increased $3.5 million in 1998. Technology supporting activities were also higher ($1.7 million) due to efforts to continuously improve the Institute's technological infrastructure, including new systems implementation and telecommunications upgrades. Organization and membership development costs were higher ($1.9 million) due to increased membership marketing and recruiting efforts.

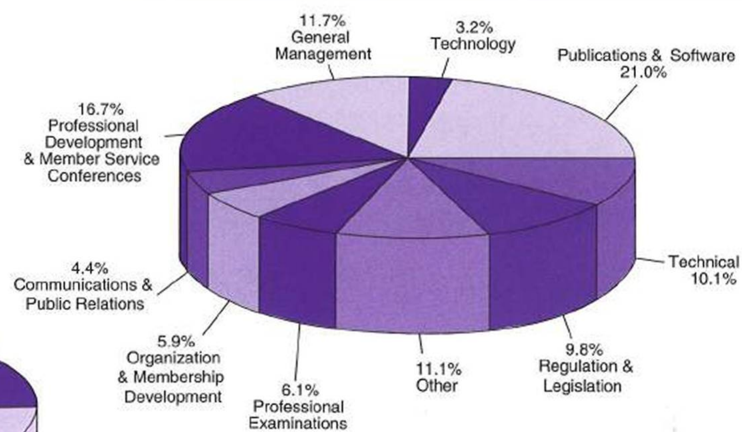
Cash flow provided by operating activities of approximately $8.4 million and $14.5 million in 1998 and 1997, respectively, was primarily invested in marketable securities and equipment. The investable assets at July 31, 1998 were $103.2 million. Recognizing the volatility of the market, the Institute, by policy, attempts to limit exposure to market risk and does not believe a downward trend in market conditions will materially affect its overall financial position.

The Institute's investment in enhanced technologies and implementation of new systems to better serve members will be a continuing process. As part of these plans, the Institute completed a comprehensive review of its information systems, operations, and third-party relationships to ensure the Institute's readiness for the Year 2000 (Y2K). A cross-functional team was formed to confirm the completeness of the Institute's Y2K plans. The Y2K issue arises as a result of computer programs using a two-digit format, as opposed to four digits, to indicate the year. Such computer systems may be unable to correctly interpret dates beyond the year 1999, which could cause a system failure or other computer errors, leading to a disruption in operations.

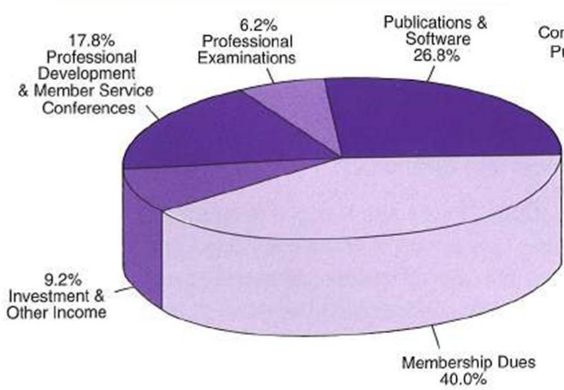
The vendors of the new internal systems implemented during 1998 have indicated that these systems are Y2K compliant or will be compliant after maintenance upgrades scheduled during 1999. Those few continuing systems requiring changes are scheduled to become Y2K ready in 1999 with minimal cost. Third parties have been contacted, and most have responded with their intent to be Y2K compliant by 2000.

At July 31, 1998, the Institute has a strong financial position with excellent liquidity and was in compliance with the Board of Directors' target of a 20%–25% ratio of net assets to annual revenue. The current liquidity along with anticipated fiscal 1999 operating and product revenue should be sufficient to finance planned operations. Major initiatives for fiscal 1999 include aligning AICPA services, products and the organization with the new Vision, combined with continued support for new assurance services and enhancement of member services related to financial planning, management consulting and international business. In addition, new organizations are providing services of traditional CPAs, resulting in CPA firms seeking alternative structures to meet marketplace demands, while serving the public interest. The Institute is active in understanding the environment producing these issues and is providing leadership to members to assist in the evaluation of the issues. Plans also include enhancement of online and electronic commerce capabilities and expansion of its advertising and communications campaigns. Investment in research and development related to computerization of the CPA Exam and potential content changes is also planned.

OPERATING EXPENSES BY ACTIVITY



OPERATING REVENUE



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, 1998, 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, 1998 and 1997, 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, 1998 and 1997, and the results of their activities and cash flows for the years then ended, in conformity with generally accepted accounting principles.

J. H. Cohn LLP

Roseland, New Jersey
September 8, 1998

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, 1998 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, 1998 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

Roseland, New Jersey
September 8, 1998

Financial Statements July 31, 1998 and 1997

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND RELATED ORGANIZATIONS

COMBINED STATEMENTS OF FINANCIAL POSITION JULY 31,

	1998	1997
	($000)	
Assets:		
Cash	$ 416	$ 860
Marketable securities	103,221	93,078
Accounts and notes receivable (less an allowance for doubtful accounts: 1998, $1,188,000; 1997, $1,300,000)	13,265	13,883
Inventories	2,028	2,017
Deferred costs and prepaid expenses	5,545	3,866
Furniture, equipment and leasehold improvements, net	20,390	21,557
Total assets	$144,865	$135,261
Liabilities and net assets:		
Liabilities:		
Accounts payable and other liabilities	$ 15,941	$ 17,419
Advance dues	30,164	28,415
Unearned revenue	20,000	13,995
Long-term debt	1,200	1,200
Deferred rent	15,489	15,649
Deferred employee benefits	13,920	12,527
Total liabilities	96,714	89,205
Net assets:		
Unrestricted	47,503	45,408
Permanently restricted	648	648
Total net assets	48,151	46,056
Total liabilities and net assets	$144,865	$135,261

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,

	1998	1997
	($000)	
Changes in unrestricted net assets:		
Operating revenue:		
Dues	**$ 57,338**	$ 55,851
Publications and software	**38,457**	37,276
Professional development and member service conferences	**25,474**	24,572
Investment and sundry income	**11,541**	10,704
Professional examinations	**8,879**	8,587
Contributions	**1,635**	1,546
Total operating revenue	**143,324**	138,536
Operating expenses:		
Program services:		
Publications and software produced for sale	**23,970**	24,630
Professional development and member service conferences	**24,342**	24,136
Member services:		
Regulation and legislation	**14,210**	13,510
Technical	**14,707**	11,956
Publications	**6,550**	6,283
Other	**9,030**	6,881
Professional examinations	**8,952**	8,344
Communications and public relations	**6,479**	6,386
Support and scholarships	**5,914**	5,957
Assistance programs	**1,167**	1,159
Supporting activities:		
General management	**16,985**	16,059
Organization and membership development	**8,658**	6,753
Technology	**4,650**	2,934
Total operating expenses	**145,614**	134,988
Excess of operating revenue over expenses (expenses over revenue)	**(2,290)**	3,548
Gains (losses) on marketable securities:		
Realized	**11,092**	3,758
Unrealized	**(6,707)**	7,274
Totals	**4,385**	11,032
Increase in unrestricted net assets	**2,095**	14,580
Unrestricted net assets, beginning of year	**45,408**	30,828
Unrestricted net assets, end of year	**$ 47,503**	$ 45,408

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

COMBINED STATEMENTS OF CASH FLOWS
YEAR ENDED JULY 31,

	1998	1997
	($000)	
Increase (Decrease) in Cash:		
Operating activities:		
Cash received from members and customers	$ 146,537	$ 136,467
Interest and dividends received	4,846	3,349
Cash paid to suppliers, employees and other	(142,261)	(124,671)
Interest paid	(60)	(62)
Income taxes paid	(626)	(592)
Net cash provided by operating activities	8,436	14,491
Investing activities:		
Payments for purchase of equipment	(3,118)	(2,595)
Payments for purchase of marketable securities	(200,513)	(118,190)
Proceeds from sale of marketable securities	194,751	106,524
Net cash used in investing activities	(8,880)	(14,261)
Net increase (decrease) in cash	(444)	230
Cash, beginning of year	860	630
Cash, end of year	$ 416	$ 860

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

	1998	1997
Increase in unrestricted net assets	$ 2,095	$ 14,580
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization:		
Furniture, equipment and leasehold improvements	4,285	3,888
Internal computer systems	460	436
Gain on sale of marketable securities	(11,092)	(3,758)
Amortization of subscription revenue	(270)	(255)
Unrealized loss (gain) on marketable securities	6,707	(7,274)
Provision for:		
Losses on accounts and notes receivable	127	332
Obsolete inventories	775	723
Deferred rent	(160)	1,021
Deferred employee benefits	1,666	1,627
Changes in operating assets and liabilities:		
Accounts and notes receivable	493	(2,319)
Inventories	(786)	(355)
Deferred costs and prepaid expenses	(2,138)	(1,100)
Accounts payable and other liabilities	(1,478)	2,960
Advance dues	1,749	2,512
Unearned revenue	6,276	1,440
Deferred rent	—	290
Deferred employee benefits	(273)	(257)
Total adjustments	6,341	(89)
Net cash provided by operating activities	$ 8,436	$ 14,491

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

Notes to Financial Statements July 31, 1998 and 1997

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 enable them to provide services in the highest professional manner. The Division, consisting of both the PCPS/Partnering for CPA Practice Success, the AICPA Alliance for CPA Firms ("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 program and advocacy for continuing professional education. 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.

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with unrealized gains and losses included in the statement of activities.

Contributions are recorded as unrestricted, temporarily restricted or permanently restricted when received depending on the existence and/or nature of any donor restrictions.

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.

Financial statement presentation follows the recommendations of 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, 1998, 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 1997 financial statements have been reclassified to conform with the current year's presentation.

2. Marketable Securities

Marketable securities consist of:

	1998	1997
	($000)	
U.S. Treasury obligations	**$ 34,881**	$20,527
Bonds and notes	**34,905**	39,821
Equities	**33,435**	32,730
Total fair value	**103,221**	93,078
Excess of fair value over cost	**2,101**	8,811
Total cost	**$101,120**	$84,267

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

Investment income consists of:

	1998	1997
	($000)	
Dividends and interest	**$ 4,277**	$ 3,639
Realized gains	**11,092**	3,758
Unrealized gains (losses)	**(6,707)**	7,274
	$ 8,662	$14,671

3. Inventories

Inventories consist of:

	1998	1997
	($000)	
Paper and material stock	**$ 400**	$ 437
Publications in process	**468**	607
Printed publications and course material	**1,160**	973
	$2,028	$2,017

4. Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements consist of:

	1998	1997
	($000)	
Furniture and equipment	**$27,218**	$24,529
Leasehold improvements	**15,858**	15,419
	43,076	39,948
Less accumulated depreciation and amortization	**22,686**	18,391
	$20,390	$21,557

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 $1,054,000. Based on borrowing rates currently available, the fair value of the note at July 31, 1998 is approximately $865,000.

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 $15,489,000 and $15,649,000 as of July 31, 1998 and 1997.

Minimum rental commitments on noncancelable real estate and equipment leases in effect as of July 31, 1998, exclusive of future escalations for real estate taxes and building operating expenses, are:

Year Ending July 31

($000)	
1999	$ 9,166
2000	8,791
2001	8,436
2002	8,004
2003	8,261
Years subsequent to 2003	64,238
	$106,896

Rental expense for the years ended July 31, 1998 and 1997 was $10,715,000 and $10,677,000.

7. Employee Benefit Plans

The Institute sponsors a noncontributory defined benefit pension plan for substantially all employees. The following table sets forth the plan's funded status and the amounts recognized in the balance sheet:

May 1,	**1998**	1997
	($000)	
Projected benefit obligation	**$43,647**	$35,540
Plan assets available for benefits at fair value	**57,563**	46,839
Plan assets in excess of projected benefit obligation at end of year	**$13,916**	$ 11,299
Accrued pension cost	**$ (4,635)**	$ (3,822)

Net pension expense for the years ended July 31, 1998 and 1997 was $814,000 and $804,000. Benefits paid amounted to $2,000,000 and $1,394,000. There were no employer contributions in 1998 and 1997.

Economic Assumptions:		
Discount rate	**7.00%**	7.75%
Expected long-term rate of return on plan assets	**9.00%**	9.00%
Rate of increase in future compensation levels	**4.75%**	4.75%

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 $849,000 and $628,000 for the years ended July 31, 1998 and 1997. The higher 1998 amount is due to an increase in the employer matching.

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, 1998 and 1997 was $852,000 and $823,000.

The accumulated postretirement obligation as of May 1, 1998 and 1997 was $7,774,000 and $8,117,000. Accrued postretirement benefit costs included in the accompanying statements of financial position were $9,284,000 and $8,706,000.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7% and 7.75% in 1998 and 1997.

The weighted average health care cost trend rate used in measuring the postretirement benefit expense was 7.5% and 8% in 1998 and 1997, gradually decreasing to 5% in 2004 and remaining at that level thereafter.

The Institute funds the cost of these plans on the cash basis and in 1998 and 1997 paid $273,000 and $257,000.

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 1998, the Institute also made a $95,000 commitment 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 1998. 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 1998. 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, 1998 and 1997 follow:

	Balance August 1, 1996	Increase	Balance July 31, 1997 ($000)	Increase (Decrease)	Balance July 31, 1998
Unrestricted:					
AICPA	$23,398	$12,863	$36,261	$1,324	$37,585
Division	2,041	499	2,540	31	2,571
ARA	947	150	1,097	(94)	1,003
Benevolent Fund	2,593	543	3,136	222	3,358
Foundation	1,849	525	2,374	612	2,986
	30,828	14,580	45,408	2,095	47,503
Restricted:					
Foundation:					
Library Fund	648	—	648	—	648
	$31,476	$14,580	$46,056	$2,095	$48,151

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

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American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775
(212) 596-6200
www.aicpa.org