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AICPA annual report 1999-2000; CPA vision: gaining momentum

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Momentum



Gaining
The CPA Vision

1999 - 2000
Annual Report





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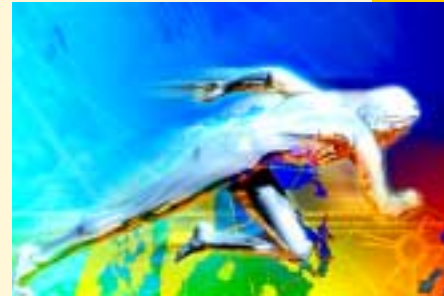


* Also view the 1999–2000 AICPA Annual Report by visiting AICPA Online at www.aicpa.org.

The Year In Brief

- Preserving and enhancing the hallmarks of the CPA credential, the American Institute of CPAs (AICPA) supports traditional service areas of the profession, begins strengthening the audit process and independence rules, and introduces innovative programs and initiatives that deliver on the promise of the CPA Vision.
- In developing a "Web First" strategy, the AICPA's Council makes a groundbreaking decision to redefine the Institute as a Web-based organization that will refocus efforts and work processes to fully exploit the power and potential of the Internet. Consistent with this strategy, Council approves the creation of an Internet-based portal that will provide CPAs with resources, information and tools to better service small- to medium-size clients and employers.
- State CPA societies partner with the AICPA to form a shared services entity designed to improve the products and services available to the profession, maintain a national database of members, eliminate redundancies to reduce aggregate operating costs, and support the profession's Internet portal. The joint ownership venture also launches CPAWeb.org, a transitional Web site providing a single point of entry for many shared products and services that will fold into the portal.
- The AICPA and seven foreign accountancy organizations form a consortium to explore the feasibility, marketability and benefits of creating a new, global business professional credential as a way to capitalize on market opportunities in today's expanding domestic and international business environments.
- An independent blue-ribbon panel validates that audit quality is sound. The profession's commitment and dedication to preserving the integrity of financial reporting has made our self-regulation program effective. Successful self-regulation has greatly contributed to creating the best and strongest financial reporting system and capital markets around the world. As part of our efforts to continually improve, suggestions for enhancements made by the panel are being considered throughout the AICPA.
- Pledging to aggressively resist enactment of a proposed rule on auditor independence by the Securities and Exchange Commission (SEC), the AICPA testifies at hearings before the Commission in September calling the proposal intrusive, unwarranted and over-reaching. The Institute also mobilizes the profession to voice its opposition to the proposal, demonstrating that the very future of the profession is at stake. As put forth by the SEC, the proposed rule would significantly alter the accounting landscape.
- The AICPA continues to support efforts of the state CPA societies and the National Association of State Boards of Accountancy to enact the core provisions of the *Uniform Accountancy Act*. While progress is being made, further efforts are necessary to sustain a viable state-based system.
- Initiatives to recruit talented students into the profession include a new report that aims to influence accounting curricula, a curriculum kit for high schools, an expansion of our student membership program, and a strengthened outreach campaign with an emphasis on minority students.

- The AICPA streamlines the volunteer committee structure. While many standing committees remain, the shift to a task-force driven approach will enable the profession to move quickly in addressing emerging issues.
- Armed with tools and information provided by the AICPA, CPAs demonstrate their technological acumen by helping their clients and employers successfully cope with the “Y2K bug.”
- The 2000 Top Ten Technologies lists reflect an intensive focus on e-business and security issues, and indicate that CPAs should turn their attention to Web-enabled applications, XML (eXtensible Markup Language), bandwidth and other arenas affecting the profession's services and deliverables.
- To help members gain a competitive advantage in the marketplace, new affinity programs and benefits are introduced. Among them are partners that provide financial Web sites, offer research software, assist with corporate filings and related services, process credit card transactions and Internet payments, and provide an online knowledge resource service.
- The AICPA launches the Center for Investment Advisory Services and introduces the Certified Information Technology Professional credential.
- Continuing its call for simplification of the tax code, the AICPA joins with the Tax Executive Institute and the American Bar Association Section of Taxation to send to Congress a package of tax simplification recommendations. It was the first time these three groups came together to propose how complex areas of the Internal Revenue Code could be simplified.



- Information concerning member disciplinary actions is expanded and posted to our Web site (www.aicpa.org), in keeping with the AICPA's mission of serving the public interest. While an abbreviated version continues to be published in *The CPA Letter*, the online write-ups provide more in-depth coverage of the violations and sanctions and include more educational information for members.
- More assurance services enter the marketplace. *CPA SysTrustSM* is designed to increase confidence in the systems that support a business or activity. *CPA Performance ViewSM* facilitates an entity's development of a performance measurement system tailored to its unique mission and strategic plan.
- A modularized format is adopted for *WebTrustSM* engagements, allowing clients to select the principle(s) most relevant to their businesses. The new model will be expanded to cover the business-to-business and Internet service provider marketplace and will allow the service to be more flexible to client needs.
- Offering leading-edge practices for finance and accounting professionals are eight new publications in the *Strategic Management Series*, a collaborative effort between the AICPA's Center for Excellence in Financial Management and CMA-Canada.

...From the Chair and President



Robert K. Elliott, Chair, and Barry C. Melancon, President

Our country's transformation to a post-industrial economy — resulting in increasing wealth, greater employment, rising incomes, and a cornucopia of new products and services — depends on many factors, including secure property rights, impartial justice and an educated workforce. But it also depends on the high-quality information necessary to make the wise

choices that redeploy capital to its highest and best use — our profession's signature product.

The economy has rewarded us for our contribution by presenting most of our members with their best year ever! We should pause for a minute to celebrate and enjoy this achievement.

But only for a minute, because the same transformation that we have enabled has enormous implications for us. We must transform ourselves, our organizations and our institutions to take advantage of these wider environmental influences, rather than be overrun by them. Every aspect of our profession must change:

- Our skills and capabilities.
- Our services.
- Our business models (more market- and value-driven).
- Our production processes (new tools and procedures).
- Our relationships with clients, employers and employees.
- Preparation of new entrants to our profession.

Some members see these inevitable changes and are exhilarated, while others are alarmed. Our Institute has been anticipating and facilitating these changes for some time and, during the current year, we have continued the process.

The Institute is not identical to the profession, but it is *the profession's Institute*. The AICPA is funded by the profession;

overwhelmingly dependent on members' voluntary, part-time labor; and governed by representative bodies, with ultimate power in the hands of the members. No leaders of the Institute can succeed unless they seek out the views of the membership and consult with them. The two of us in the past year have visited more than 40 states to explain how the Institute serves our members, to get ideas, to learn about satisfactions and dissatisfactions, and, quite frankly, to take pleasure in the company of our colleagues. In these senses, our more than 337,000 CPA members share in everything we, as officers, do. And we know from the Vision process, with its widespread member participation, that the transformation the Institute has been helping to foster was perceived by the membership as, and became, the marching orders for its leaders.

The accompanying matrix shows how our projects affect the areas that need to be changed (gold boxes). Items in the rows represent areas for transformation. The columns contain examples of our transformation projects, demonstrating the range of what has been done. In conjunction with the areas for transformation, the matrix should give you a sense of how we are implementing the Vision and some idea of what is possible.

Skills & capabilities	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Services	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Business models	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Production processes	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Relationships with clients, employers & employees	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Preparation of new entrants to our profession	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Internet portal	Shared services entity	New credential project	Center Inv. Adv. Services	SysTrust	XBRL	Performance View	CTTP credential	Competency framework					

We have enjoyed working together and felt throughout a shared sense of values, purposes and approach. It has been a very busy year, but it has also been exhilarating. We believe the profession is moving in the right direction under its own power with a future within grasp as glorious as its past.

Robert K. Elliott *Barry C. Melancon*

Robert K. Elliott Barry C. Melancon
Chair President & CEO

Making Sense of a Changing and Complex World

According to the CPA Vision created by thousands of members across the country, the core purpose of our profession is to make sense of a changing and complex world. This guiding principle touches every area of our work.

It is our long-standing commitment to maintaining the integrity of financial reporting and auditing that has helped give the U.S. the stature it has in the international business community. The investing public, participating in the capital markets at unprecedented levels, probes financial reports and audits to make critical decisions about their investments.

With dynamic markets, globalization of the economy, rapid changes in technology and a virtually driven world, auditors must readily adapt to their environments, and the AICPA has always been and will continue to be there to facilitate that process. Faced with the New Economy as well as heightened public and regulatory scrutiny, the AICPA has delved into many facets of the audit process. Among them are:

- **Audit Documentation.** The Auditing Standards Board's (ASB) audit documentation project will develop clear, concise and consistent guidance regarding the objective, nature and extent of audit documentation required for compliance with generally accepted auditing standards in a financial statement audit.
- **Audit Committee Communications.** Statement on Auditing Standards (SAS) No. 89, *Audit Adjustments*, requires auditors to inform an entity's audit committee about misstatements aggregated by the auditor that management does not correct because it believes they are immaterial to the financial statements taken as a whole. SAS No. 90, *Audit Committee Communications*, requires, among other things, auditors to discuss with audit committees of Securities and Exchange Commission (SEC) registrants certain information relating to an auditor's judgments about the quality, not just acceptability, of a company's accounting principles.

- **Fraud.** When the ASB issued SAS No. 82 on fraud detection in 1997, it committed to evaluate the standard's effectiveness through five research studies. The first of those studies, undertaken by academicians, was published this past summer. *Fraud-Related SEC Enforcement Actions Against Auditors: 1987–1997* identifies settings in which auditors were cited by the SEC as well as the alleged deficiencies in the audit process that caused the auditors to be cited. The study provides insights for auditors and regulators to consider as they work to continuously improve the auditing profession's ability to detect instances of material financial statement fraud.
- **Financial Instruments.** In July 2000, the ASB voted to issue a final SAS that provides guidance in planning and performing auditing procedures for financial statement assertions about derivative instruments, hedging activities and investments in securities. This SAS is particularly important given the issuance of the Financial Accounting Standards Board's Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and the expansion in the number and types of derivative instruments and hedges.
- **Revenue Recognition.** Following up on guidance issued last year on revenue recognition, we are developing a guide on auditing revenue in industries not covered in current AICPA Audit and Accounting Guides. Also to help auditors fulfill their professional responsibilities with regard to auditing assertions about revenue, the Institute published *Audit Issues in Revenue Recognition*, which brings together the audit and accounting guidance on revenue recognition for sales of goods and services in the ordinary course of business.

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.

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

- Communication and Leadership Skills
- Strategic and Critical Thinking Skills
- Focus on the Customer, Client and Market
- Interpretation of Converging Information
- Technologically Adept

International Auditing and Accounting

With national boundaries becoming less significant in the age of digital commerce, we are focusing attention on the international auditing arena as well. The Institute has a representative on the International Auditing Practices Committee (IAPC) of the International Federation of Accountants (IFAC), and the ASB has a subcommittee that monitors the work of the IAPC and provides input into its progress. In fact, the IAPC issued an exposure draft of a proposed international standard on “fraud and error” that continues to make progress in this important area.

Here are other developments on the international front:

- The International Organization of Securities Commissions (IOSCO) accepted and recommended, for financial statement purposes, the set of 30 International Accounting Standards developed and issued by the International Accounting Standards Committee (IASC), with AICPA member and staff participation. Though IOSCO’s recommendation allows for individual countries to mandate reconciliations, interpretations and their own standards, recognition by IOSCO of the standards will facilitate transnational business.
- IFAC has been restructured to establish a Public Oversight Board for increased credibility of its standard-setting activities and to permit the IASC to operate as a separate entity, with a new constitution. The new IASC will have full-time, fully compensated members and staff and will operate under a mandate requiring increased liaison with national standard setters, thereby creating a better global environment for accounting-standard setting.
- IFAC also has approved the establishment of a Forum of Firms, which has as an objective the eventual creation of a worldwide quality review system.

Auditing in the Evolving Information Economy

Looking to audit effectiveness in the future, we are moving forward in the area of continuous auditing. The advance of the digital economy has created, among other things, a demand for more timely assurance on a broader range of information than that previously provided by the annual audit of historical financial statements. If decision makers need continuous information upon which to base their decisions, then they also will need independent assurance on the reliability of such information.

The demand for high-quality information is the key catalyst for many of our initiatives. For example, the growing interest in attestation standards has led to a need to improve the utility of statements on standards for attestation engagements (SSAE). As such, the ASB issued an exposure draft of a proposed SSAE that would revise and recodify the existing standards. Besides being easier to understand and apply, the revised standards will enable practitioners to tailor engagements to meet the needs of decision makers.

One can easily see that given the global economy, the increasing complexity of business, the demand for more timely information, and the expansion of the type of information necessary for investors, the profession is facing many issues. At the forefront of adapting to this ever-changing environment, however, is the public interest.

Performance and Oversight

Upholding the public trust is the goal of many of our processes — from education, to certification, to acculturation, to standards, to performance, to consistently reliable service. Self-regulation is the feedback loop that checks to see how the profession is performing. A number of our initiatives in this area have improved and will further improve our monitoring and disciplinary processes, as well as address recent regulatory concerns.

The SEC Practice Section (SECPS) established a task force to study issues concerning a firm’s quality control systems regarding independence. This past year, the SECPS Executive Committee adopted a membership requirement that will enhance firms’ independence systems in an effort to ensure the maintenance of independence. The membership requirement mandates:

- Establishment and distribution of comprehensive and legible independence policies.
- Development and implementation of automated investment tracking and monitoring systems for the five largest firms, and mechanisms for monitoring restricted-entity lists for other member firms.
- Compulsory continuing professional education in independence.
- Development of internal disciplinary mechanisms for dealing with violations by individuals in firms.

To assist member firms in complying with the new requirements, a comprehensive training course on independence was developed on CD-ROM. In addition, "plain English" guidance has been developed and posted to our Web site.

We also had established a task force to revisit the objectives and effectiveness of the SECPS peer review program, a task force that included a member of the Panel on Audit Effectiveness (formed in October 1998 by the Public Oversight Board at the request of the SEC). One recommendation of that task force was that there should be continuous peer review for the largest audit firms.

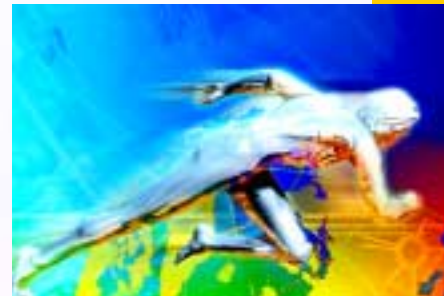
Furthermore, an SECPS task force developed a membership requirement that will enhance our disciplinary processes related to auditors of publicly held companies. The new requirement, approved in September 2000 with a January 1, 2001, effective date, requires member firms to take certain actions with respect to individuals involved in ethics enforcement matters where the firm is named in litigation concerning its audit of an SEC registrant.

For firms that do not audit SEC registrants, there is a new "three-tiered" peer review program that takes effect January 2001. Depending on the nature of the services conducted, firms may undergo more comprehensive reviews. This reengineering of peer review puts the attention on the more complicated attest engagements.

Modernizing Ethics and Independence Rules

The ethics committee is exploring ways to modernize the ethics rules in an effort to keep up with the changing environment. One of its projects involves using an engagement team approach in evaluating independence. If approved, the firm, the engagement team and its immediate family members and certain close relatives, and those who influence the engagement would be subject to independence rules while others in the firm would not be.

The AICPA also supported the work of the Independence Standards Board (ISB), created jointly by the SEC and the profession to govern the independence of auditors of public companies. Among its many projects, the ISB this year issued a discussion memorandum on a conceptual framework for auditor independence and released standards on mutual funds and former firm professionals joining audit clients.



Strengthening Self-Regulation

In an effort to further strengthen our self-regulatory system, AICPA members overwhelmingly approved a bylaw change proposed by our governing Council that allows it to authorize nonmembers to serve on a portion of any senior or permanent committee or board. With passage of a Council resolution to allow nonmembers to serve on the Professional Ethics Executive Committee, the committee now has the resources it needs to readily obtain the public's perspective and feedback with respect to its standard-setting and enforcement processes. This change also further opens up the committee's processes to public review and participation, and adds a higher degree of credibility as the committee deals with regulators, the business community and the public.

In addition, the Panel on Audit Effectiveness examined the current audit model, evaluated the way audits are performed, and analyzed the efficiency and effectiveness of the current self-regulatory structure. Not surprisingly, it found that the quality of audits is sound, and that there were no instances in which providing non-audit services had a negative effect on audit effectiveness. In fact, it found that in roughly one-fourth of the audit engagements reviewed in which consulting services also were provided, the services had a *positive* impact on the effectiveness of the audit.

Despite the panel's findings, the SEC still seems intent on its proposal to preclude accounting firms from offering most non-audit services to audit clients. With input and support from medium and small firm advocacy committees and firms of all sizes and practice complexity, the AICPA communicated to the SEC that its proposal is unwarranted and over-reaching. We stated our case before the SEC at hearings in September, citing the proof that audit quality and effectiveness are not compromised by audit firms' scope of services. We also mobilized the profession to voice its concern with the SEC's rule-making proposal, demonstrating that the very future of the profession is at stake. The potential cascade effect of the SEC's proposal could even impact audits of privately held entities.



In another significant vote this year, members were asked to approve proposals to, among other things, require individual CPAs who practice in firms that are not eligible to enroll in the peer-review program to enroll individually in a peer-review program, if authorized by Council. Council has adopted resolutions that allow CPAs in non-CPA owned entities to perform compilations under Statement on Standards for Accounting and Review Services (SSARS) No. 1, as long as they undergo peer review on those compilations. With these changes, the public is equally served and protected regarding compilations performed by accounting firms or by CPAs in other entities.

Also on the issue of compilations, the Accounting and Review Services Committee issued a proposed revision of SSARS No. 1, *Compilation and Review of Financial Statements*, in response to the advances in information technology and the change in services that clients of CPAs are requesting. This proposal gives accountants new communications alternatives when compiled financial statements will be used only by the client's management. By offering communication options for management's-use compilations, the accountant provides a quality service and appropriately responds to the needs of clients.

Professional Responsibility

CPAs have a special responsibility to those who rely on them. Buyers and users of our services must know that CPAs, whether employees of organizations or in accounting firms, perform at the highest level possible.

To that end, Council authorized the Tax Executive Committee to be a standard-setting body. The existing *Statements on Responsibilities in Tax Practice*, which had been advisory and educational, were modified and exposed for public comment as authoritative *Statements on Standards for Tax Services*. In late July, the Tax Executive Committee voted to issue the authoritative statements, effective October 31, 2000.

Also, acknowledging the importance of federal government financial reporting, Council adopted a resolution recognizing the Federal Accounting Standards Advisory Board (FASAB) as the body designated to establish generally accepted accounting principles for federal government entities. In a related development, the Auditing Standards Board issued a hierarchy for GAAP for federal government financial reporting that recognizes FASAB statements as "level A" GAAP.

Extending Service Offerings

Making sense of a changing and complex world has meant an expansion of the profession's scope of services, particularly during the past few years, both to seize new business opportunities and to provide the services the marketplace demands. Several initiatives this past year recognize these new roles and help members maintain their competence while generating revenue sources. In doing so, the AICPA again has taken the lead in serving the public and the profession.

Investment Advisory Services

To facilitate developing or expanding a financial planning practice to include providing investment advice, the AICPA in October 1999 launched the Center for Investment Advisory Services. The Web-based Center, which encourages CPAs who perform these services to become Registered

Investment Advisers, offers members and firms top-quality training, software tools and resources. Strategic relationships currently exist with many well-regarded organizations in the industry, including our anchor affiliate, Fidelity Investments Institutional Brokerage Group.

Among the Center's many future plans are:

- A formalized educational platform with different knowledge levels.
- A marketing toolkit.
- An online library of newsletters, periodicals and listings of books and courses.
- Software and service packages to provide back-office support.
- A peer-networking mentor program.

With CPAs getting into the financial adviser market like never before, in part because clients want "one-stop shopping" from their tax practitioners or personal financial planners, the Center's offerings will develop and nurture the advisory skills necessary for strengthened business relationships.

New Information Technology Initiatives

Because technology is a main driver of much of the business environment today and will continue to be so in the future, two new AICPA efforts are aimed at building the profession's position as an information-technology leader. We were at the forefront, along with many technology companies, accounting firms and other organizations, in developing an XML-based specification for the preparation and exchange of financial reports and data. Extensible Business Reporting Language (XBRL) is an open specification that uses XML-based data tags to describe financial statements for both public and private companies. It is a standards-based method with which users can prepare, publish (in a variety of formats), exchange, find, acquire and analyze financial statements and the information they contain. Freely licensed, it permits the automatic exchange and reliable extraction of financial information across all software formats and technologies, including the Internet.

This new specification, which was released with the first taxonomy for commercial and industrial companies on July 31, 2000, will allow for the creation of financial statements using XBRL and provide for browser-based

style sheets to render the financial statement XML document as a Web page. Such a specification benefits all stakeholders in the financial information supply chain, including public and private companies, regulators, analysts, the investment community, capital markets and lenders, as well as key third parties, such as software developers and data aggregators.

What's more, Council approved the integration of the Information Technology Alliance (ITA) as a separate organization membership section. The ITA was an association of technology consulting firms (some of which were CPA firms), vendors and value-added resellers. This new ITA Section will be home for the





ITA's current member firms and companies and AICPA member firms and companies with an interest in information technology consulting. As an arm of the Institute, it will lead the development of the AICPA's Technology Advisers Program and support the educational and training requirements of the new Certified Information Technology Professional credential. The section also will maintain a dedicated Web site and sponsor an annual conference. Section members will receive newsletters, technical alerts and other publications, as well as discounts on products and services.

Driving Markets to Members

Through the Vision process, we learned that the profession wants the Institute to help identify and cultivate new niche areas where individuals and business decision makers will turn to CPAs to fill those market demands. A perfect example of driving markets to members is the creation of the family of assurance services.

WebTrustSM, which provides e-commerce solutions to a business and a related seal of assurance on various elements of e-commerce transactions, has been steadily gaining acceptance here and abroad. Developed in partnership with the Canadian Institute of Chartered Accountants, the service is now offered in 10 countries outside North America, and the list continues to grow. Increased skepticism of "dot-coms" by the public and legislators has led to a fresh look at this assurance service, opening the door for more extensive market penetration. Moreover, CPAs can now offer a WebTrust engagement in a format that will allow clients to choose the various principles that best fit their users' needs. The new model is being released in stages, as modules are completed, by the end of the year. The first set of standards issued under this new approach, the WebTrust Privacy Principles and Criteria, was released this past summer along with the related WebTrust Privacy Seal.

Joining WebTrust this year have been *CPA ElderCare Services*, *CPA SysTrustSM Services*, and *CPA Performance ViewSM*. A risk advisory assurance service, which will encompass such services as risk assessment, quantification and identification, is in active development.

In ElderCare engagements, CPAs provide assurance to clients that their elders are receiving care from qualified providers, both in financial and non-financial areas. Interest in the service among practitioners has been strong since its introduction, especially with smaller firms.

CPA SysTrustSM Services is an assurance service that independently tests and verifies a business-information system's reliability in order to increase the comfort of management, customers and business partners with the systems that support a business by decreasing the risk associated with system failures. With SysTrust, practitioners provide independent verification about whether a system is reliable as measured against four essential principles: availability, security, integrity and maintainability.

CPA Performance ViewSM offers the profession an opportunity for greater involvement in the business performance measurement process of their clients or employers. To help members offer this service, the Institute has created comprehensive training as well as a practice guide and a powerful software tool integral to the success of a *CPA Performance View* initiative.

Business & Industry

On the subject of performance measurement, a study of best practices was conducted by the AICPA's Center for Excellence in Financial Management. Interest in performance measurement runs high among business and industry members, as evidenced by the Web-based survey that garnered more than 2,000 responses. In addition, site visits were made to various organizations to learn directly from the field and see processes at work. Through the study, the AICPA hopes to glean insight from companies regarding what they see as their strengths

and weaknesses in their performance measurement systems, how they use and approach performance measurement, and how well they integrate performance measurement into the rest of their business processes. A report on this study, which was the first step in a major research project to learn more about performance measurement systems, will be published this fall.

In addition, we are in the process of conducting a research initiative to gain a better understanding of the role that CPAs play in business and industry and in government, from the perspective of both the practitioner and the organization. Results of the survey will be available later this year and will be used to target services to members in these employment categories.

Promoting the 'CPA Brand'

In October 1999, the Institute launched phase five of the profession's national image enhancement campaign. The campaign consisted of three 30-second television spots, three 60-second radio spots (for use by the state CPA societies) and three print ads.

All the ads were new and incorporated the CPA Vision themes. Market research helped us determine how to further evolve the CPA image, resulting in our combining such competencies and services as strategic and critical thinking, interpretation of financial and non-financial information, and performance management, with the core values of integrity, competence and reliability to produce a vitalized, contemporary brand.

Attitudes and awareness research currently is under way to help us better understand the image of the CPA profession among business executives and decision makers, as well as how it has changed as a result of the brand campaign. The image-tracking study, commissioned by the AICPA but conducted by an independent research firm, measures executives' awareness of both the "newer" CPA attributes that are in direct relation to the CPA Vision (innovative,

WINDOWS OF OPPORTUNITY.

CUSTOMIZED FOR ANY BUSINESS.



American Institute of Certified Public Accountants

You can have a plan. You can have all the right information. But unless you hold these things up to your goals, assess them against your needs, and understand their effects on the future, you can't make a truly informed decision. That's where your CPA comes in. Because windows of opportunity aren't always found. They're created.

- Consulting Services*
- Financial Planning*
- Performance Management*
- Technology Services*
- International Services*
- Information Integrity*
- Assurance Services*

CPA

The CPA. Never underestimate the value.™

forward-thinking, creative) and of the heritage attributes (reliability, integrity, competence). We also are measuring their awareness of the more non-traditional services of the profession, such as consulting, information integrity and assurance, financial planning, technology services and international services.



Supporting the Full Service Mix

We recognized more than ever the need to be nimble and proactive to enable members to capitalize on emerging business trends. To ready the profession for market challenges and opportunities, the Board of Directors approved a revamping of the Institute's volunteer committee structure, and the National Accreditation Commission (NAC) introduced a credential in information technology.

Restructuring the Committee Model

The new volunteer service structure is designed to involve more members on a wider variety of projects than in the past, and it taps into the special expertise and interests of individual members from all segments of the profession. While there still are many standing committees, the new model is task-force driven to provide the flexibility and versatility necessary to keep pace with rapid marketplace changes and to address important issues more quickly and effectively as the profession implements the CPA Vision.

Using task forces gives us a work approach that is strategic, quick-to-action and market sensitive, as they are created as needed to allow active member interchange, decision making and input on critical initiatives. The work done by task forces is increasingly being accomplished through the use of online collaboration. When a task force's specific objectives are met, the task force then disbands.

Uncovering and prioritizing emerging trends, capturing the hottest issues and identifying market opportunities are the responsibilities of the newly established Group of 100. The G100 is a cross-functional group consisting of members from all segments. At its first meeting in November 1999, over 200 recommendations surfaced, which then were reviewed and categorized. G100 recommendations resulted in the formation of five new task forces in the areas of professional ethics, service to members in industry, accounting standards, student internships and field study, and technology.

In a related enhancement to the volunteer committee structure, the Board approved the establishment of expert panels that focus on identifying industry-specific business reporting issues with an emphasis on audit and accounting. Initially, panels were set up in areas in which the membership and the public have a high stake and in which the AICPA can add significant value. For example, panels were created for

biotechnology and pharmaceuticals, and computer auditing and electronic delivery, as well as employee benefit plans and government/not-for-profit. The panels will identify projects, and task forces will implement them.

Accrediting Specialties

Another way in which CPAs can become a potent market force is through an effective accreditation process that attests to their capabilities to provide more non-traditional services. CPAs have a century-long tradition of integrity and respectability that can serve as a significant advantage in the marketplace over other financial service providers. By pairing the CPA credential with a specialized credential, members can capitalize on this advantage.

It was apparent, and supported with market research, that CPAs with a specialized credential in technology could tap into a growing niche whereby CPAs help company management make strategic technology-related decisions. In October 1999, Council ratified such a credential, the Certified Information Technology Professional (CITP). CPAs who earn the CITP credential can assist clients and employers with a variety of information-technology needs, including the selection and installation of computing hardware, monitoring and updating systems and advice on upgrades, accounting systems evaluation, IT training and assessment, Web-site design and development, and more. The credential distinguishes CPAs with IT competence and helps support their practice-building and marketing efforts. Interest in CITP among members has been exceptionally strong since the credential was introduced this past summer.

Besides creating the IT credential this year, a number of other possible specialty areas have been identified and are currently being considered, including consulting services and litigation services. The NAC also is working with the Business Valuation Subcommittee and the Personal Financial Planning Executive Committee in considering a "point system" approach for the Accredited in Business Valuation and Personal Financial Specialist credentials in an effort to foster greater flexibility of entry into these programs, while still assuring the qualifications of credential holders. Looking ahead, the NAC also will explore the possibility of working with and/or forming alliances with organizations that currently sponsor CPA-specific accreditation programs.

The Value of Learning

New learning and measurement technologies now permit us to modernize our approach to competency development. We are taking advantage of these technologies to advance a new CPE model — one that recognizes additional ways in which competencies are developed and one that is more career-minded than CPE-year oriented. Jointly with the National Association of State Boards of Accountancy, we exposed for comment proposed new standards for continuing professional education. These standards are oriented toward *professional development* rather than CPE credits, representing a major shift in the way we approach continuing education and life-long learning — core values identified by the CPA Vision.

These proposed standards focus on professional learning and recognize job-related and other learning as competency development. Specifically, CPAs would employ self-assessment tools to understand their current skills level and identify skills gaps, develop learning objectives and learning plans to close those gaps, and finally execute these plans over a period of time — sometimes with the assistance of a reviewer who will help guide them through the process. There also are separate standards for “sponsored” learning activities where organizations (such as the AICPA and other CPE providers) take responsibility for delivery of programs to students, and for “self-directed” learning activities (which include non-traditional learning activities, such as experiential learning), where learning is undertaken and accomplished without the assistance of outside sponsors.

Focusing on the CPA Examination

During the past year, a practice analysis study has been conducted to provide information to guide the redesign of the *Uniform CPA Examination*. The Content Oversight Task Force, which reports to the Board of Examiners, is overseeing the practice analysis and will use the results to recommend test structure and content.

**AICPA's
new CITP
accreditation**

To reflect the evolving landscape of today's business technology and the mission of the CPA Vision, the AICPA has created an accreditation program designed specifically for CPAs who serve as their organization's bridge between management and the technologist.

The CITP (Certified Information Technology Professional) accreditation will be a broad-based credential available to CPAs from a wide range of skill levels and disciplines, including all members in public practice, consulting, industry, government, and education.

Contact us today to receive a CITP fulfillment kit that contains more detailed information on the CITP Accreditation Program.

**CPA
CITP**
Certified Information Technology Professional

making business sense of technology

AICPA 1-888-777-7077 • citp@aicpa.org

The new CPA Examination is expected to include assessment of higher-order skills, such as critical thinking, research and use of technology to perform work. To help accomplish this objective, the new exam will be administered by computer. Plans call for the introduction of the computerized test in 2003. The Computerization Implementation Committee, a joint AICPA/National Association of State Boards of Accountancy committee, is overseeing development of the computer-based exam.

The development of a new CPA Examination has implications for many stakeholders, including the public who needs the exam to ensure that those entering the profession can demonstrate the requisite knowledge and skills. A restructuring of the Board of Examiners will ensure that appropriate competencies are represented on the board.

Aligning Accounting Education With the Vision

Stepping up the flow of qualified CPA candidates who can meet the challenges of the New Economy is the driver for our relations with academicians and educator organizations. The recently released *Technology Toolkit CD-ROM*, a product of the faculty development alliance of the AICPA and the American Accounting Association (AAA), features examples of how faculty have successfully integrated information technology into the learning experience and the curriculum. In addition to demonstrations of these innovative approaches and practitioner perspectives on the critical importance of IT in the workplace, the CD-ROM includes guidance to help a broader spectrum of faculty replicate these technology integrations at their schools. The AAA is developing a Web-based resource to continue the sharing of other successful IT integration examples.

Furthermore, a provocative report that makes the case for curriculum change was produced as a result of an alliance among the AICPA, the AAA, the Institute of Management Accountants and the largest professional service firms. Motivated by the decline in accounting enrollments and graduates, the collaborative effort was undertaken to address the future content and structure of accounting education and inspire change. The report concludes that accounting education has not changed significantly despite repeated calls for change, and that change is critical if accounting education is to survive.

Entering the Public Debate

As the nation's largest organization of CPAs, the Institute is uniquely qualified to speak on behalf of the profession. We take very seriously our role to protect and promote members' interests while preserving public confidence in financial matters under consideration by legislators.

The AICPA achieved a big success in late 1999, when Congress passed legislation revamping America's banking system that included language that protects CPAs' access to information so that they can continue to perform audits and offer a full range of services to financial institution clients. The threat to the profession arose when a privacy amendment

was attached to the bill that was so broad it would have locked the accounting profession out of access to financial information necessary to perform audits and to offer a broad scope of services. Another concern with the bill involved an auditor's responsibility for reporting illegal acts discovered when conducting an audit of the Board of Governors of the Federal Reserve System or one of the 12 Federal Reserve Banks. Thanks to the illegal acts reporting language being deleted from the final bill, the new law only requires all Federal Reserve Banks and the Board of Governors of the Federal Reserve System to annually undergo an independent audit. Such audits had been voluntary, not mandatory.

Congress continues to struggle without conclusion about how to protect individuals' rights to privacy in the electronic age. One private-sector solution to this dilemma is third-party verification, which means that an objective third party examines a business' privacy policy to make sure that the privacy claims are true. *WebTrustSM* is a third-party verification program currently available in the private sector. Because the accounting profession has this nexus in the privacy debate, the AICPA seized the opportunity to advance the third-party verification solution offered by a bill that would establish a privacy commission to study a broad spectrum of privacy issues — online privacy, identity theft, privacy in the workplace, and the protection of health, medical, financial and governmental records. The Institute's amendment was added to the bill during committee consideration and would require the report to include a look at third-party verification as an enforcement mechanism. The House of Representatives is set to debate the privacy commission bill.

On the tax front, a proposal the AICPA helped develop to modify the generation-skipping transfer tax was passed by Congress as part of the bill to repeal estate taxes, which President Clinton vetoed. Several other initiatives in which the AICPA has played an instrumental role are included in legislation to increase the minimum wage that is poised to pass Congress. One is the measure the Institute helped develop to allow employers to offer retirement-planning services to their employees without the cost of those services being taxable to the employee. The other is a provision that would reinstate the installment method of accounting for accrual basis taxpayers. The installment method change that was signed into law in late 1999 became a boomerang for Congress almost immediately when it was apparent that the change was killing the sale of small businesses. AICPA Key Persons joined the torrent of Americans urging Congress to reverse its action to effectively eliminate the use of the installment method of accounting for most accrual method taxpayers.

The AICPA has tackled the high-profile abusive corporate tax issue head-on. In testimony before the House Ways and Means and Senate Finance Committees, the Institute recommended specifically targeted legislation to prevent abuses. Our proposals would avoid sweeping innocent transactions of average taxpayers and practitioners into a complex and burdensome disclosure and penalty regime, as has been proposed by some members of Congress. When the Senate Finance Committee released its staff draft of a bill to curtail abusive corporate tax shelters, the AICPA submitted a letter outlining which areas of the bill it thought presented pitfalls for taxpayers and practitioners. Also, concerned that the Senate staff's bill could develop quickly behind the scenes, the Institute activated its Key Persons for Senate Finance Committee members to let the Senators know of the Institute's objections to the draft bill. AICPA representatives also met with the Secretary of the Treasury about the corporate tax shelter issue.

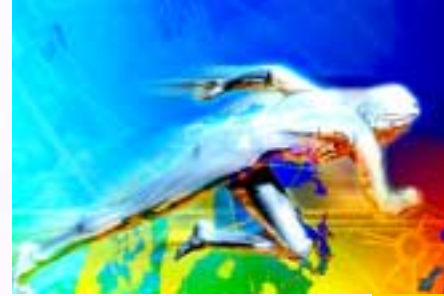
Our Political Forces

Continuing to strengthen the profession's political voice and grassroots network are the Political Leadership Cabinet and the AICPA's Political Action Committee (PAC), called the Effective Legislation Committee. The Cabinet not only serves as an advisory panel to the Board of Directors, the PAC, and the Congressional & Political Affairs Team in Washington, D.C., it also fosters two-way relationships with members of Congress. It identifies public policy issues to which CPAs can and should contribute, and speaks on their behalf on these issues as well as on legislative matters affecting the profession.

Through the PAC, the profession "gets a seat at the table" in debates on public policy. The PAC is funded by voluntary personal contributions from AICPA members around the country.

Forging Forward to a New Frontier — Digital and Global

Full-speed ahead toward realizing the CPA Vision, the profession is at a new frontier. The two initiatives that will lift us to new levels of value and expand our service offerings in ways never before imagined are an Internet portal (called "cpa2biz") and a proposed new global professional credential.



cpa2biz

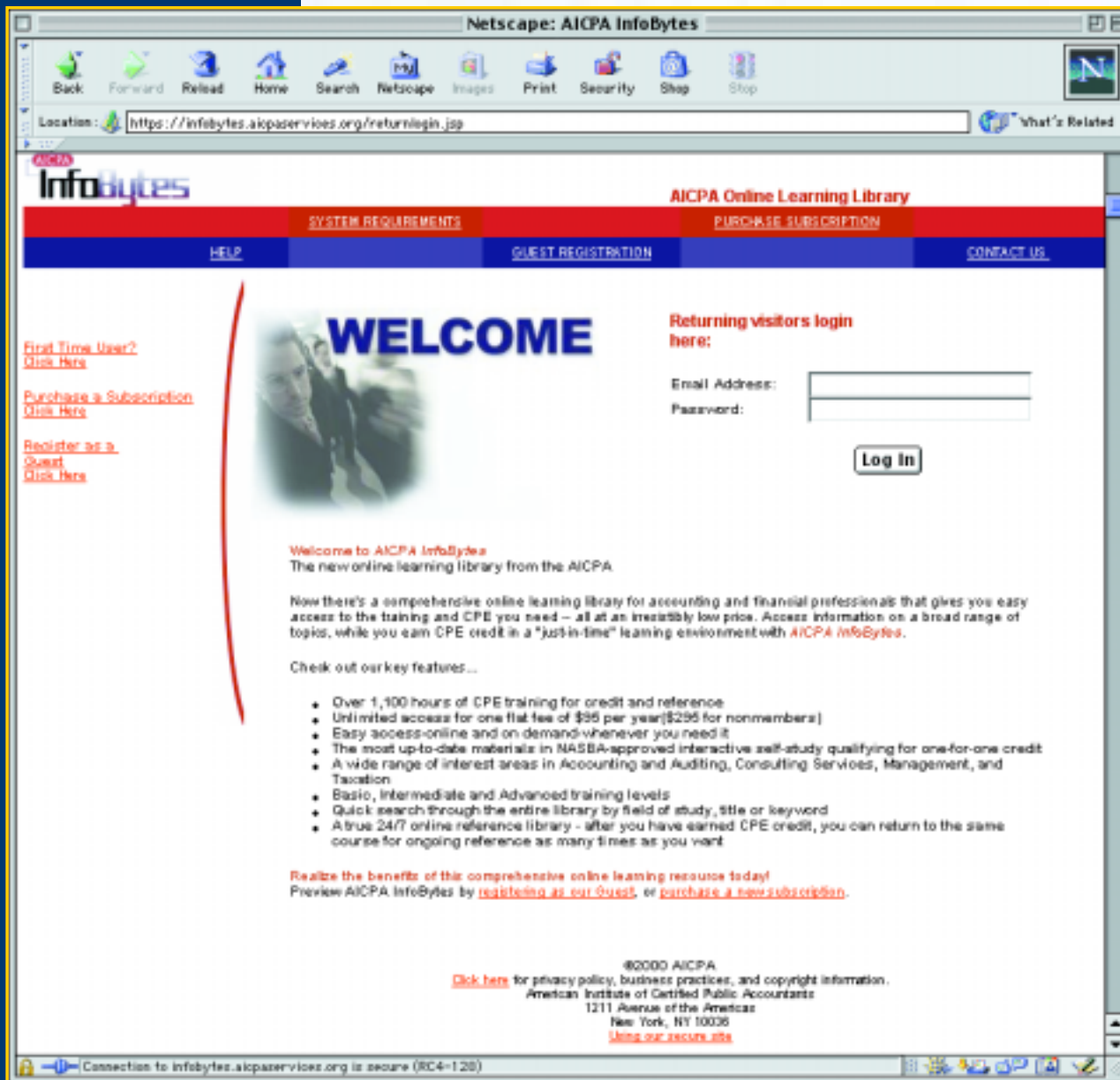
The Internet portal, cpa2biz, will offer CPAs who are owners or employees of small- to mid-size businesses, or who have small- to mid-size businesses as clients, many new business opportunities that would otherwise go unrealized. In fact, research clearly indicates that the untapped market is so lucrative that if the profession did not act to direct the creation and evolution of the portal, someone unfamiliar with the profession and its clients and employers would have taken the reins.

cpa2biz will significantly expand Internet-based products, services and knowledge sources for CPAs. It also will have a business-to-business (B2B) side that will be a full-service, multi-function Web space designed to meet the e-business needs of small-business clients and employers.

The portal is being established through the creation of a separate for-profit entity, which likely will become a public company. Owners of cpa2biz will include the AICPA and state societies, members and employees of those organizations, and outside investors. It is these strategic partners who will be providing the e-enablement capabilities that CPAs can deliver to their small-business clients and employers.

An active B2B vehicle, the portal will give members a competitive edge. They will be able to provide clients and employers with an Internet infrastructure that delivers business tools, content and purchasing networks. As a result, the portal will strengthen members' existing and potential business relationships, provide central access to combined state society and AICPA offerings as well as the offerings of other portal partners, and foster community building and knowledge exchange.

Setting the groundwork for cpa2biz was a collaborative effort to provide CPAs with a single source for essential products and services. The AICPA and 50 state CPA societies plus the District of Columbia, through a shared



services entity, launched CPAWeb.org. A transitional Web site, CPAWeb.org laid the foundation for the move toward the profession's Internet portal. The site's functions, which make extensive use of the power of the Internet, will be folded into cpa2biz.

Among its many capabilities, CPAWeb.org provides personalized member registration, a national CPE catalog, a CPE Transcript Wizard to keep track of members' CPE credit histories, a national membership database for searching for AICPA members or those across states,

membership information on the AICPA and state societies and member profiles, and online dues payment. Three major CPA-targeted product offerings became available on the site as well:

- *AICPA InfoBytes* is an online learning tool that provides approximately 1,200 hours of training and resources. It enables users to receive "just-in-time" learning, as well as unlimited CPE for just \$95 for AICPA members and \$295 per year for nonmembers. The ability to print out

CPE certificates of completion is offered, as is an administrative tracking tool to aggregate in-process and completed CPE by fields of study. Also, *AICPA InfoBytes* links to the CPE Transcript Wizard.

- Electronic versions of the Institute's accounting and auditing literature can be found in *reSOURCE Online*. It consists of *Professional Standards*, *Technical Practice Aids*, all Audit and Accounting Guides and Audit Risk Alerts, and *Accounting Trends & Techniques*. Each title is fully linked and searchable.
- *E-MAP (Managing an Accounting Practice)* is an online reference and toolkit for managing small- to medium-size firms. E-MAP provides easy desktop access to extensive material needed to manage all aspects of a professional practice.

When the CPA business element of the site launches, it will establish cpa2biz as the premier source for content, research and online communities for members. After that, the business-to-business component will be launched to position the CPA as the key adviser to e-enable millions of small businesses, helping them to compete in e-commerce.

A New Credential for the New Economy

Also having unbridled potential is a proposed new global professional credential. Grounded in international market research involving both potential buyers of this credential holder's services and those who would be eligible to become credential holders, this unique credential would be based on the ability to leverage knowledge to achieve organizational objectives and create wealth. Currently in development by an international consortium of accountancy organizations, including the AICPA, CPAs and their equivalents would pioneer this new professional credential and reap the rewards of being at the forefront. The consortium is now expanding to include other countries.

Enactment of the new credential requires approval by the full AICPA membership. A ballot package will be distributed once Council votes to authorize a membership referendum, planned for the summer of 2001. The development stage of the proposed credential includes obtaining member input.

The global professional credential would symbolize not just a body of knowledge or set of skills, but a new and distinct profession that is needed to serve businesses in the evolving information economy. It is a recognized emblem of one's ability to integrate organizational knowledge and business experience to provide strategic business insight that creates economic value.

Holders of the proposed new credential would win enhanced national and international market positions as credible, well-rounded business advisers and strategic thinkers. The credential would provide validation of the ability to meet a recognized set of professional and ethical standards issued on a global basis. It would also demonstrate a commitment to continuing learning and enhanced competencies.

For CPAs, this optional global business credential would complement the CPA credential. Statutorily, the CPA credential is a license to perform attestations. It does not cover all the high-opportunity services the profession identified in the Vision process, all the work our members — whether in business and industry, government, small or large professional services firms — currently do, or all their work arrangements. We need a credential that represents the scope and breadth of competencies we bring to exploit the knowledge owned by organizations to help them achieve their strategic objectives. This new credential, therefore, would add to the current hallmarks of the CPA credential and stand beside it in the marketplace.



Defining the Proposed Credential

The proposed new professional credential will be defined by the following four critical characteristics that make it uniquely positioned in the marketplace:

- Global in reach.
- Based on a broad understanding of business operations.
- Bound by a high, global standard of ethics.
- Based on a global standard of competency, with a commitment to continuing learning and periodic assessment to ensure currency of knowledge and skills.

Moving Ahead With Momentum

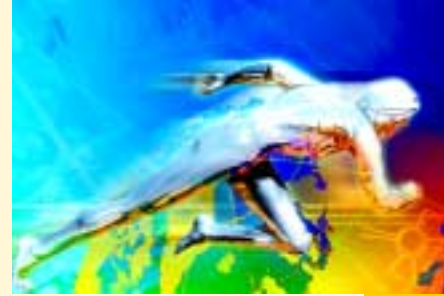
This new credential will help us adapt to the changing economy. It will enhance our ability to build on our tradition to stake out territory in the expanding information-era marketplace, a marketplace that offers enormous potential for growth. Having had exposure to many industries and experience working with other types of professionals and specialists in a wide range of disciplines, CPAs are in an excellent position to become credential holders and offer the knowledge integration, complex problem solving and higher levels of value needed by today's business organizations.

Those who will be interested in the proposed new credential will also include those who are not CPAs. Since the core of the credential's definition will include competencies in the skills and services of other disciplines, just as many of our skills and services do now, members of other disciplines who could pass the rigorous entry requirements would be able to obtain the credential.

Our priority this past year was to make every effort to ensure that members have the tools, services and knowledge they need to realize the CPA Vision. The CPA profession has had a year replete with initiatives ranging from strengthening the audit process and tightening the self-regulatory system, to developing programs to support specific service areas and driving new markets to members.

On top of that are our progressive actions to propel the profession to a land of new opportunities — a land uninhabited by others. With our Internet portal, CPAs will be able to enter the electronic commerce marketplace like never before. The prospects of a new, global professional credential offer untold business possibilities.

Even as all these opportunities develop, we will continue to explore new strategies to enhance our profession's standing in the domestic and international business communities and to help our members succeed. Armed with support and guidance, individual members in force are charting their courses for the future — gaining momentum toward the CPA Vision.



Sources and Occupations of AICPA Membership

	1988	1990	1992	1994	1996	1998	2000
Total AICPA Membership (excluding student and other affiliates)	272,479	295,633	308,280	318,829	328,214	332,355	337,454
Public Accounting	46.5%	44.5%	42.6%	41.3%	40.4%	39.6%	39.4%
Business & Industry	39.6%	40.4%	40.6%	40.9%	42.3%	43.9%	46.4%
Education	2.7%	2.7%	2.4%	2.4%	2.4%	2.4%	2.3%
Government	3.6%	3.7%	4.1%	4.4%	4.4%	4.4%	4.2%
Retired & Miscellaneous	7.6%	8.7%	10.3%	11.0%	10.5%	9.7%	7.7%
Membership in Public Practice	126,771	131,508	131,306	131,630	132,617	131,627	132,943
Firms with one member	24.8%	24.3%	23.6%	23.5%	22.9%	23.5%	21.8%
Firms with 2-9 members	33.6%	34.3%	35.5%	36.5%	36.4%	35.8%	34.1%
Firms with 10 or more members, except the 25 largest firms	16.4%	17.6%	19.8%	19.9%	20.8%	20.5%	22.8%
25 largest firms	25.2%	23.8%	21.1%	20.1%	19.9%	20.2%	21.3%

Management's Discussion and Analysis

In 2000, the Institute focused its efforts on fulfilling its continuing commitment to protect the public interest and integrating the CPA Vision ("Vision") into the profession and the operations of the Institute.

To protect the public interest, the Institute strengthened its enforcement system for auditors of public companies, expanded the quality control requirements of firms auditing public companies, and enhanced the requirements of auditors of public companies to take a more active role in assuring the quality of financial reporting of their foreign associates. The Institute also introduced a new assurance service to test the reliability of a company's system for producing financial information. This new service, SysTrust, will be especially valuable in the future to provide continuous assurance on internally generated financial information.

The Vision requires the Institute and the profession to continue to proactively provide e-commerce solutions. Providing electronic information and product distribution are among the many Web-related activities that dominate the domestic and international business community. These activities create an opportunity for the Institute to bring added services to its members, so that they may bring enhanced value to their clients and employers, the underlying theme of the Vision.

At the Fall 1999 Council meeting, major strategic initiatives were announced that are reflected in the current fiscal year results. The authorization by the Board of Directors and Council for the formation of the CPA Portal, Inc. ("Portal"), a vertical electronic portal, and the creation of an online learning library, *AICPA InfoBytes*, demonstrates a willingness to reshape the future as well as an opportunity to strengthen the Institute's connection with its members, the members' connection with each other and to the business community at large. The purpose of the Portal is to create a CPA channel and a business-to-business e-commerce solution for clients and employers of AICPA members. The Institute is aligning with strategic partners in order to further develop the financial resources necessary for the Portal to be successful. It is anticipated that these strategic partners will replenish the fiscal commitments made by the Institute to date.

In order to strengthen relationships with state societies as well as reduce the cost of state societies' group-study seminars for AICPA

members, a decision was made to provide AICPA group study materials to state societies at no charge for AICPA members and at a minimal charge for non-AICPA members. A shared services entity was also formed between the AICPA and state societies to eliminate operational duplicity, recognize economies of scale, and further strengthen alliances with state societies.

Other new and continuing initiatives include a proposal to develop a global credential for business professionals, subject to the approval of AICPA members, as well as the creation of an XML-based (eXtensible Markup Language) financial reporting language that will facilitate the exchange and extraction of key financial information over the Internet and the efficient preparation of financial statements. The Institute has also been active in areas such as independence, including working with the Independence Standards Board and in cooperation with the Public Oversight Board ("POB") Panel on Audit Effectiveness. As shown in the financial statements, operating expenses exceeded revenue (including interest and dividends) by approximately \$3.5 million in 2000 and \$5.3 million in 1999. Realized and unrealized gains on marketable securities amounted to \$1.0 million in 2000 and \$3.0 million in 1999.

Operating revenue was \$161.0 million in 2000 compared to \$146.7 million in 1999, an increase of \$14.3 million. This is mainly due to an increase in AICPA member dues and sundry income. The AICPA membership dues increase was the first increase since the fiscal year ended July 31, 1995, and was an attempt to provide additional support for the new strategic initiatives. The increase in sundry income is largely due to payments from firms to support the work of the POB Panel on Audit Effectiveness and independence reviews, along with additional funding for the POB.

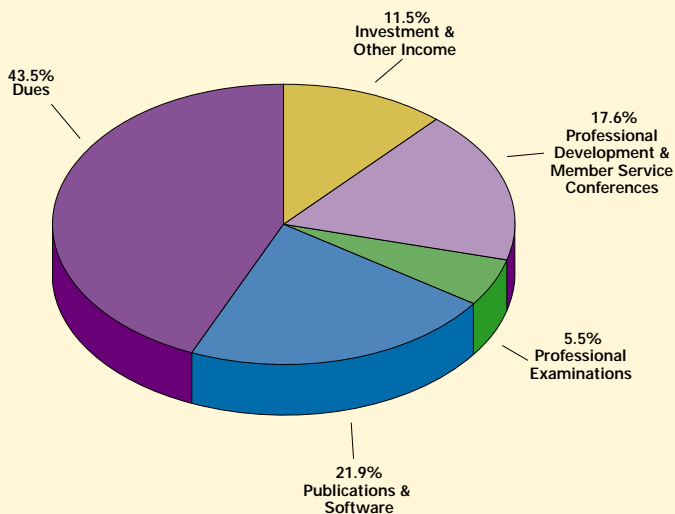
Operating expenses of \$164.5 million reflect a \$12.5 million increase from 1999. The increase was due to expanding and new initiatives to better serve AICPA members. The major increase, representing \$4.4 million or 35.1%, is related to the Portal. Increases in Member Services-Other are largely due to the cost of strategic initiatives and several Web-development projects, including expansion of the Knowledge Management system. Increases in Member Services-Regulation and Legislation are largely due to the efforts of the SECPS Division and the POB Panel on Audit Effectiveness.

As a result of the previously mentioned increase in operating expenses, cash flow used in operating activities was \$3.4 million in 2000 as compared with the cash flow provided by operating activities of \$2.6 million in 1999. Investments were made in the purchase of technology-related amortizable assets. The liquidation of marketable securities funded these activities. 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.

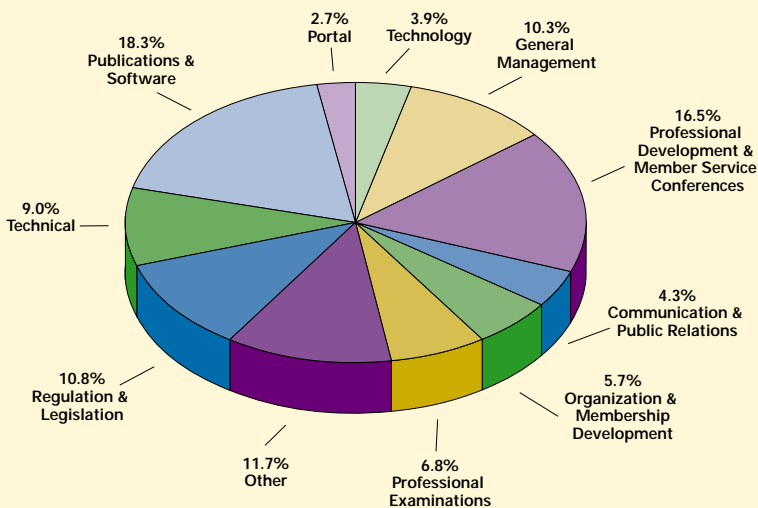
At July 31, 2000, the Institute has a strong financial position with excellent liquidity and was in compliance with the AICPA's Board of Directors' target of a 20–25% ratio of net assets to annual revenue.

The current liquidity along with anticipated Fiscal 2000 operating revenue should be sufficient to finance planned operations other than Portal activities. Major initiatives for Fiscal 2001 include the development of the Portal, computerization of the CPA Examination, expansion of the shared services efforts with the state societies, expansion of the CPA Vision Project to the state societies, further implementation of new versions of the Web site, which expanded its services in July 2000, and continued attention to the commitment to public interest and self-regulated activities.

OPERATING REVENUE



OPERATING EXPENSES BY ACTIVITY



Management's Responsibilities for Financial Statements and Internal Control

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, 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

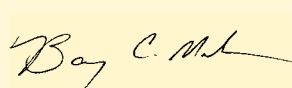
The Institute maintains internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition which is designed to provide reasonable assurance to the Institute's management and Board of Directors regarding the preparation of reliable financial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

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 can provide only reasonable assurance with respect to financial statement preparation and the safeguarding of assets. Furthermore, the effectiveness of internal control can change with circumstances.

The Institute has assessed its internal control 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, 2000, its 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 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



Clarence A. Davis
Chief Financial Officer

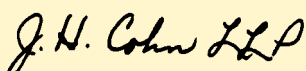
Reports of Independent Public Accountants

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, 2000 and 1999, 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 about whether 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, 2000 and 1999, and the results of their activities and cash flows for the years then ended, in conformity with generally accepted accounting principles.



Roseland, New Jersey
September 1, 2000

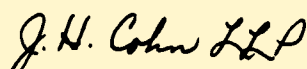
To the Members of the
American Institute of Certified Public Accountants

We have examined management's assertion, included in the accompanying statement of management's responsibilities for financial statements and internal control, that the AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND RELATED ORGANIZATIONS maintained effective internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition as of July 31, 2000, based on criteria established in *Internal Control — Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management is responsible for maintaining effective internal control over financial reporting and over safeguarding of assets, and against unauthorized acquisition, use or disposition. Our responsibility is to express an opinion on the effectiveness of internal control based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control 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; and performing 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, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control 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 may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the American Institute of Certified Public Accountants and Related Organizations maintained, in all material respects, effective internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition as of July 31, 2000, based on criteria established in *Internal Control — Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission.



Roseland, New Jersey
September 1, 2000

Financial Statements

July 31, 2000 and 1999

AMERICAN INSTITUTE OF CERTIFIED PUBLIC
ACCOUNTANTS AND RELATED ORGANIZATIONS

COMBINED STATEMENTS OF FINANCIAL POSITION
JULY 31,

	<u>2000</u>	<u>1999</u>
	(\$000)	
Assets:		
Cash	\$ 2,109	\$ 422
Marketable securities	92,783	100,040
Accounts and notes receivable (less an allowance for doubtful accounts: 2000, \$1,588,000; 1999, \$1,221,000)	15,090	14,340
Inventories	1,329	2,032
Deferred costs and prepaid expenses	13,764	10,252
Portal technology	5,797	
Furniture, technology and leasehold improvements, net	17,596	20,715
Total assets	<u>\$148,468</u>	<u>\$147,801</u>
Liabilities and net assets:		
Liabilities:		
Accounts payable and other liabilities	\$ 27,232	\$ 18,006
Advance dues	25,482	33,640
Unearned revenue	20,223	18,895
Long-term debt	1,200	1,200
Deferred rent	15,161	15,285
Deferred employee benefits	15,751	14,898
Total liabilities	<u>105,049</u>	<u>101,924</u>
Net assets:		
Unrestricted	42,771	45,229
Permanently restricted	648	648
Total net assets	<u>43,419</u>	<u>45,877</u>
Total liabilities and net assets	<u>\$148,468</u>	<u>\$147,801</u>

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

AMERICAN INSTITUTE OF CERTIFIED PUBLIC
ACCOUNTANTS AND RELATED ORGANIZATIONS

COMBINED STATEMENTS OF ACTIVITIES
YEAR ENDED JULY 31,

	<u>2000</u>	<u>1999</u>
	(\$000)	
Changes in unrestricted net assets:		
Operating revenue:		
Dues	\$ 70,012	\$ 59,653
Publications and software	35,195	36,561
Professional development and member service conferences	28,337	26,837
Investment and sundry income	17,248	12,958
Professional examinations	8,925	9,002
Contributions	1,311	1,726
Total operating revenue	<u>161,028</u>	<u>146,737</u>
Operating expenses:		
Program services:		
Publications and software produced for sale	23,682	23,868
Professional development and member service conferences	27,178	25,311
Member services:		
Regulation and legislation	17,727	15,900
Technical	14,799	15,266
Publications	6,484	6,872
Portal, net of minority interest	4,380	
Other	11,857	8,930
Professional examinations	11,240	10,209
Communications and public relations	7,011	7,111
Support and scholarships	6,510	6,195
Assistance programs	963	1,173
Supporting activities:		
General management	16,894	17,495
Organization and membership development	9,456	8,043
Technology	6,346	5,687
Total operating expenses	<u>164,527</u>	<u>152,060</u>
Deficiency of operating revenue over expenses	<u>(3,499)</u>	<u>(5,323)</u>
Gains (losses) on marketable securities:		
Realized	1,219	691
Unrealized	(178)	2,358
Totals	<u>1,041</u>	<u>3,049</u>
Decrease in unrestricted net assets	<u>(2,458)</u>	<u>(2,274)</u>
Unrestricted net assets, beginning of year	<u>45,229</u>	<u>47,503</u>
Unrestricted net assets, end of year	<u>\$ 42,771</u>	<u>\$ 45,229</u>

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

	<u>2000</u>	<u>1999</u>
	(\$000)	
Increase (decrease) in cash:		
Operating Activities:		
Cash received from members and customers	\$150,207	\$143,881
Interest and dividends received	4,447	4,040
Cash paid to suppliers, employees and others	(157,252)	(145,103)
Interest paid	(136)	(61)
Income taxes paid	(634)	(114)
Net cash provided by (used in) operating activities	<u>(3,368)</u>	<u>2,643</u>
Investing Activities:		
Payments for purchase of amortizable assets	(1,877)	(3,881)
Payments for purchase of furniture and technology	(1,535)	(4,969)
Payments for purchase of marketable securities	(170,476)	(330,508)
Proceeds from sale of marketable securities	178,774	336,741
Net cash provided by (used in) investing activities	<u>4,886</u>	<u>(2,617)</u>
Financial activities — proceeds from sale of stock	169	
Net increase in cash	1,687	26
Cash, beginning of year	422	396
Cash, end of year	<u>\$ 2,109</u>	<u>\$ 422</u>

**Reconciliation of decrease in unrestricted net assets to net cash
provided by (used in) operating activities:**

Decrease in unrestricted net assets	<u>\$ (2,458)</u>	<u>\$ (2,274)</u>
Adjustments to reconcile decrease in unrestricted net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization:		
Furniture, technology and leasehold improvements	5,019	4,723
Internal computer systems	1,654	729
Gain on sale of marketable securities	(1,219)	(691)
Amortization of unearned revenue	(1,783)	(1,719)
Unrealized (gain) loss on marketable securities	178	(2,358)
Provision for:		
Losses on accounts and notes receivable	367	198
Obsolete inventories	800	757
Deferred rent	(124)	(204)
Deferred employee benefits	1,283	1,315
Changes in operating assets and liabilities:		
Accounts and notes receivable	(487)	(1,354)
Inventories	(97)	(761)
Deferred costs and prepaid expenses	(4,477)	(1,633)
Accounts payable and other liabilities	3,453	2,143
Advance dues	(8,158)	3,476
Unearned revenue	3,111	633
Deferred employee benefits	(430)	(337)
Total adjustments	<u>(910)</u>	<u>4,917</u>
Net cash provided by (used in) operating activities	<u>\$ (3,368)</u>	<u>\$ 2,643</u>

Supplementary disclosure of noncash investing activities:

Noncash investing activities in 2000 consist of financing the purchase of amortizable assets through \$4,974,000 of trade payables.

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

Notes to Combined Financial Statements

July 31, 2000 and 1999

1. Organization

The financial statements include the accounts of the American Institute of Certified Public Accountants ("AICPA"), its majority-owned, for-profit subsidiary, CPA Portal, Inc. (the "Portal"), (collectively "AICPA and Subsidiary"), 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, the Portal 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 Portal is the distribution subsidiary for AICPA products and other member services. 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 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.

During 2000, the AICPA and State Societies Network, Inc. organized Shared Services LLC, a limited liability company, for the purpose of managing a consolidated membership database, which is currently under construction.

2. Summary of Significant Accounting Policies

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.

All significant intercompany accounts and transactions have been eliminated in combination.

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 Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made* (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 temporary cash investments, 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, 2000, 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, technology and leasehold improvements are stated at cost, less accumulated depreciation or amortization computed on the straight-line method. Furniture and technology 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 three- to five-year period that begins when the system becomes operational.

Costs of promotions and advertising are expensed as incurred. Total promotion and advertising expenses were \$9,126,000 and \$8,709,000 for the years ended July 31, 2000 and 1999.

The Institute accounts for its Web-site development costs in accordance with Emerging Issues Task Force Issue No. 00-2, *Accounting for Web Site Development Costs* and Statement of Position 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use*. All costs incurred in the planning stage of developing a Web site are expensed as incurred as are internal and external training costs and maintenance costs. Fees incurred to Internet service providers in return for hosting a Web site on its server connected to the Internet are expensed over the period of benefit.

External and internal costs, excluding general and administrative costs and overhead costs, incurred during the application development stage of internal use Web-site software are capitalized. Such costs include external direct costs of materials and services consumed in developing or obtaining Web-site software, payroll and payroll-related costs for employees who are directly associated with and who devote time to developing Web-site software, and interest costs incurred while developing Web-site software. Upgrades and enhancements that result in additional functionality to the Web-site software, which enable it to perform tasks that it was previously incapable of performing, are also capitalized.

Capitalized internal use Web-site development costs are amortized on the straight-line method over its estimated useful life of three years and

begins when all substantial testing of the Web site is completed and the Web site is ready for its intended use.

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.

Research and development costs related to the computerization of the CPA Examination amounted to \$827,000 and \$754,000 for the years ended July 31, 2000 and 1999.

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 Portal is organized as a for-profit entity.

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 1999 financial statements have been reclassified to conform with the current year's presentation.

3. Marketable Securities

Marketable securities consist of:

	<u>2000</u>	(\$000)	<u>1999</u>
U.S. Treasury obligations	\$28,728		\$34,008
Bonds and notes	27,115		27,483
Equities	36,940		38,549
Total fair value	92,783		100,040
Excess of fair value over cost	4,281		4,459
Total cost	<u>\$88,502</u>		<u>\$95,581</u>

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

Investment income consists of:

	<u>2000</u>	(\$000)	<u>1999</u>
Dividends and interest	\$4,447		\$4,040
Realized gains	1,219		691
Unrealized gains (losses)	(178)		2,358
	<u>\$5,488</u>		<u>\$7,089</u>

4. Inventories

Inventories consist of:

	<u>2000</u>	<u>1999</u>
	(\$000)	
Paper and material stock	\$ 267	\$ 312
Publications in process	241	396
Printed publications and course material	<u>821</u>	<u>1,324</u>
	<u>\$1,329</u>	<u>\$2,032</u>

5. Furniture, Technology and Leasehold Improvements

Furniture, technology and leasehold improvements consist of:

	<u>2000</u>	<u>1999</u>
	(\$000)	
Furniture	\$ 8,547	\$ 8,277
Technology	22,750	23,036
Leasehold improvements	<u>15,347</u>	<u>16,720</u>
	<u>46,644</u>	48,033
Less accumulated depreciation and amortization	<u>29,048</u>	<u>27,318</u>
	<u>\$17,596</u>	<u>\$20,715</u>

6. Long-Term Debt

Long-term debt consists of a 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 \$907,000. Based on borrowing rates currently available, the fair value of the note at July 31, 2000 is approximately \$827,000.

7. Commitments and Contingencies

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 \$15,161,000 and \$15,285,000 as of July 31, 2000 and 1999.



Minimum rental commitments on noncancellable real estate and equipment leases in effect as of July 31, 2000, exclusive of future escalations for real estate taxes and building operating expenses, are:

<u>Year Ending July 31</u>	(\$000)
2001	\$ 9,553
2002	9,047
2003	9,078
2004	8,932
2005	8,629
Years subsequent to 2005	<u>48,719</u>
	<u>\$93,958</u>

Rental expense for the years ended July 31, 2000 and 1999 was \$11,514,000 and \$11,114,000.

During 2000, the AICPA entered into a noncancellable sublease. The total of minimum rentals to be received in the future under this sublease, which expires in 2012, amounts to \$17,114,000 as of July 31, 2000. Sublease income amounted to \$466,000 for the year ended July 31, 2000.

Line of Credit

The AICPA has available, but unused, a line of credit with a bank for short-term borrowings of up to \$7,000,000, at the bank's prevailing interest rate. Any amounts outstanding under this line of credit are collateralized by an account holding marketable securities, which may not fall below \$12,000,000. At July 31, 2000, the account has securities with a market value of approximately \$38,790,000. The line of credit expires on January 31, 2001.

8. 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 statement of financial position:

May 1,	<u>2000</u>	<u>1999</u>
	(S000)	
Projected benefit obligation	\$50,316	\$49,376
Plan assets available for benefits at fair value	<u>58,910</u>	<u>58,983</u>
Plan assets in excess of projected benefit obligation at end of year	<u>\$ 8,594</u>	<u>\$ 9,607</u>
Accrued pension cost	<u>(\$5,764)</u>	<u>(\$5,161)</u>

Net pension expense for the years ended July 31, 2000 and 1999 was \$603,000 and \$526,000. Benefits paid amounted to \$2,945,000 and \$1,835,000. There were no employer contributions in 2000 and 1999.

Economic Assumptions:

Discount rate	7.25%	7.00%
Expected long-term rate of return on plan assets	9.00%	9.00%
Rate of increase in future compensation levels	4.65%	4.65%

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 \$881,000 and \$911,000 for the years ended July 31, 2000 and 1999.

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

Net periodic postretirement benefit cost for the years ended July 31, 2000 and 1999 was \$681,000 and \$789,000.

The accumulated postretirement obligation as of May 1, 2000 and 1999 was \$11,519,000 and \$7,813,000. Accrued postretirement benefit costs included in the accompanying statement of financial position were \$9,988,000 and \$9,737,000.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.25% and 7% in 2000 and 1999.

The weighted average health care cost trend rate used in measuring the postretirement benefit expense was 9% and 7% in 2000 and 1999, gradually decreasing to 5.5% in 2008 and remaining at that level thereafter.

The Institute funds the cost of these plans on the cash basis and in 2000 and 1999 paid \$430,000 and \$336,000.

9. 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 2000, 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 2000. The ARA also makes a best-efforts commitment to raise funds for support of the GASB. The commitment is \$490,000 for the calendar year 2000. It is anticipated the ARA will continue to support the FASB and GASB.

10. CPA Portal, Inc.

The AICPA, with authorization from the Board of Directors and Council, organized the Portal during 2000 for the purpose of creating a CPA channel (electronic distribution of existing and future AICPA products) and cpa2biz (business-to-business e-commerce solutions for clients of AICPA members). The Portal anticipates initially raising capital through strategic partners and eventually in the capital markets in order to fund all current and future activities. The AICPA anticipates that advances to the Portal to date for its activities will substantially be repaid upon the funding of the Portal.

The raising of capital is anticipated to have a significant dilutive effect on the current capital structure of the Portal. At July 31, 2000, the AICPA owned 90% of the existing outstanding shares of common stock with the balance held by certain key employees and outside consultants. Shares owned by AICPA employees were purchased at fair value. Shares owned by the outside consultants were acquired for less than fair value and, accordingly, the difference between the amount paid and fair value was recorded as compensation.

Through July 31, 2000, \$10,200,000 has been incurred for Portal-related activities of which \$4,400,000 of direct and indirect costs was charged to operations, net of \$350,000 of minority interest. The balance of \$5,800,000 has been capitalized for the Portal's technology infrastructure.

At July 31, 2000, the Portal has certain cancellable commitments related to the technology infrastructure presently being built and is contingently liable for approximately \$5,000,000 upon the funding of the Portal by the strategic partners.

II. Net Assets

Net assets and changes in net assets for the years ended July 31, 2000 and 1999 follow:

	<u>Balance</u> <u>August 1, 1998</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Balance</u> <u>July 31, 1999</u> (\$000)	<u>Increase</u> <u>(Decrease)</u>	<u>Balance</u> <u>July 31, 2000</u>
Unrestricted:					
AICPA and Subsidiary	\$37,585	\$(2,186)	\$35,399	\$(3,229)	\$32,170
Division	2,571	(695)	1,876	335	2,211
ARA	1,003	(24)	979	2	981
Benevolent Fund	3,358	244	3,602	216	3,818
Foundation	<u>2,986</u>	<u>387</u>	<u>3,373</u>	<u>218</u>	<u>3,591</u>
	47,503	(2,274)	45,229	(2,458)	42,771
Restricted:					
Foundation:					
Library Fund	<u>648</u>	<u> </u>	<u>648</u>	<u> </u>	<u>648</u>
	<u>\$48,151</u>	<u>\$(2,274)</u>	<u>\$45,877</u>	<u>\$(2,458)</u>	<u>\$43,419</u>

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



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