2001

AICPA annual report 2000-01; Strengthening our foundation...Building oppportunities

American Institute of Certified Public Accountants

STRENGTHENING OUR FOUNDATION...

Building Opportunities

AICPA

ISO 9001 Certified

ANNUAL REPORT 2000–2001

In Memoriam

America came under attack by terrorists as the AICPA Annual Report was being finalized. The AICPA extends its deepest sympathies to all of our members as well as their families, friends, clients and employers who have been affected by these horrific events. Numerous CPA firms, financial teams and related employees experienced both personal and professional loss. In addition, several of the AICPA's employees lost family members in this tragedy.

The profession stands united with all who are suffering and with all America at this critical time.

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* Also view the 2000–2001 AICPA Annual Report by visiting AICPA Online at www.aicpa.org.

- The American Institute of Certified Public Accountants (AICPA) continues to strengthen the profession's reputation for integrity, objectivity and independence; reinforce core services such as tax, accounting, audit and attestation; and carve out new market space for virtually unlimited business opportunities for CPAs.

- Opposing enactment of a proposed Securities and Exchange Commission (SEC) rule governing auditor independence, the AICPA mobilizes the membership to present a uniform voice. In the end, the SEC votes on a negotiated compromise that addresses many of the major professional and public interest concerns of the Institute and its members. Furthermore, the Institute achieves protection for smaller firms in the critical service areas of information technology consulting and internal audit outsourcing.

- The AICPA raises serious public policy and self-regulation concerns with a General Accounting Office (GAO) proposed standard on auditor independence in *Government Auditing Standards*. Meetings and discussions with the GAO are open and professional as both organizations seek a workable solution. Some of the proposal's provisions would be especially harmful to smaller entities that rely on the expertise of their CPA firms. Hundreds of firms respond to the GAO as a result of Institute communications to educate members on the potential effects of the proposal.

- New initiatives address the important issue of quality of earnings, an area of concern for both the profession and the SEC. Through a special one-day conference, a two-day continuing professional education course, a collection of real-life cases with commentary by experts, new *AICPA InfoBytes* learning modules and a special report in *The CPA Letter*, the AICPA promotes high quality in earnings reporting and helps both auditors and financial statement preparers understand their roles in the process.

- While an exhaustive study in 2000 by the Public Oversight Board's (POB) Panel on Audit Effectiveness concluded audit quality is sound, the Institute commits significant resources — human and financial — to address all of the panel's recommendations. Development of new standards and guidance to improve the risk-based audit model — including the detection of fraud, an enhanced peer review program and a streamlined disciplinary process for auditors of public companies — are among the efforts of AICPA teams and their respective member committees.

- The AICPA approves a charter for the POB, clearly defining its authority as the body that oversees the accounting profession's self-regulatory processes as they apply to audits of public companies.

- With great enthusiasm and excitement, members of Council support a new five-year, $25 million recruitment initiative to address the trend of decreasing student interest in the CPA profession. Expected to launch in late 2001, the direct marketing program will target young people aged 16–22. State CPA societies will participate in the profession-wide initiative, a critical addition to the Institute's existing student recruitment efforts.

- The Institute further strengthens the profession's image through the sixth year of the national image enhancement campaign, focusing for the first time on national network radio. It also includes an advertising partnership program with the state CPA societies; more than 30 states join the effort.

- The AICPA heads an international consortium of more than 95 organizations to develop and launch eXtensible Business Reporting Language (XBRL), which supplies an XML-based framework that is revolutionizing the way businesses create, exchange and analyze financial reporting information. XBRL and the committee's efforts in developing it generate substantial media coverage, including a feature article in *The Times* of London.

- A business services provider for the profession, CPA2Biz starts to deliver solutions, tools and value-added content to CPAs across the country. CPA2Biz — a strategic partnership of the AICPA, investment partners such as Microsoft and Thomson Corporation, and nearly all of the state CPA societies — had its early beginnings last year as CPAWeb.org. CPA2Biz serves as the marketing and distribution arm for AICPA products.

- Since its inception two years ago, the volunteer committee restructuring spawns 122 task forces, panels and special working groups, involving some 900 members. A key component of the restructuring is an emphasis on task forces that can quickly and effectively address important issues while involving more members in a wider variety of projects.

- Council passes a resolution calling for a member information and response program on a proposed global business credential to be conducted by the AICPA working with state CPA societies. The resolution, passed at Council's spring 2001 meeting, also authorizes a membership ballot to be mailed after its fall meeting, at which time Council will discuss member reaction to the proposal and, if necessary, reconsider the matter. The Global Credential Steering Committee — an international consortium of accountancy organizations — continues development of the credential, designed to signify the ability to integrate knowledge from multiple disciplines to achieve strategic objectives and create value.

- Research on the roles of members in business and industry and in government sheds light on how the CPA credential is viewed by practitioners, employers and co-workers. Insight gleaned from the research will be used to develop programs and services for those member segments.

- The AICPA Board of Examiners and a joint committee with the National Association of State Boards of Accountancy are working together to revise the Uniform CPA Examination and computerize its delivery by November 2003. Among other things, new sections of the exam will test important skills not readily measured in paper-based formats, such as using research tools.

- Fiscal year-end flexibility is a renewed priority. The AICPA is developing a formula that seeks to maintain the government's current revenue to allow more businesses to select other than calendar year ends.

- A number of the AICPA's suggestions for overhauling the estate and gift tax system make their way into the 2001 Economic Growth and Tax Relief Reconciliation Act signed into law in June.

...FROM THE CHAIRMAN AND PRESIDENT

Kathy G. Eddy, Chairman, and Barry C. Melancon, President

"Strengthening our foundation" and "building opportunities"— these are the phrases that best characterize the past year at the AICPA. With the CPA Vision as our profession's guide, working with volunteer member committees and task forces, we have spearheaded programs designed to preserve and enhance the hallmarks of the CPA profession. At the same time, other initiatives set the stage for new opportunities for success and vitality in the 21st century. In the pages that follow, you'll see how the profession has drawn upon its 100-year tradition of objectivity, integrity and competence to forge a future of unlimited possibilities.

In the AICPA's role as the national home for all CPAs, the Institute's leadership has worked hard to reinforce the profession's foundation in the midst of complex and changing economic times. Throughout the year, our mission has been to foster a regulatory and legislative environment supportive of our profession's independence and growth, enhance the business performance and opportunities of our members, raise awareness and appreciation of the work that CPAs do and attract high-caliber talent to the profession.

As your organization, the AICPA responds to your professional needs by developing programs and initiatives that honor two paramount goals. One is to reinforce the time-honored attributes of independence, objectivity and integrity while adapting traditional CPA services to address today's business environment. The other is to create opportunities that deliver on the promise of the CPA Vision. Both goals are equally important and we must make certain that each gets the attention it deserves.

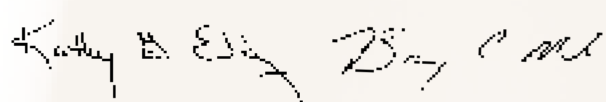
Whether it is through foundational services such as tax, accounting, audit and attest or the self-regulatory mechanisms that guide us, the core of our profession is its hard-earned reputation as trusted business and financial advisers.

Maintaining this trust is one of the primary obligations of CPAs. Toward this commitment, your Institute is working diligently to modernize ethics rules and protect the profession's interests in auditor independence. We also continue to inform the public on issues such as tax simplification, Social Security and estate tax reform. In short, many of our initiatives this year were designed to reinforce our role in the midst of a dynamic economy.

In this fast-changing world, each one of us assumes responsibility not only for today's CPAs, but also for those yet to come. The information age has significantly shifted the way we do business, demanding all professionals reposition themselves to survive. Ensuring our profession's relevancy in this economy and bolstering career opportunities for current and future generations of CPAs remains a critical responsibility.

In that regard, the Institute has led the way in developing innovative business assurance and advisory products and programs that expand CPA service offerings and business possibilities. Responding to the important work of our members practicing outside of traditional services and in business and industry, we are blazing new pathways to our profession's success. Whether these new paths are the development of a market niche for members, an Internet-based business services hub or a new global business credential, the goal is always the same: maximize the reward for our members. Such endeavors can be unsettling, but the potential payoffs for the profession far outweigh the risks.

As part of the leadership team of the national home for 336,000 CPAs across the country, we are proud to have harnessed the energy and enthusiasm of our members during this challenging and exciting time. Together, the AICPA, state CPA societies and individuals like you can help shape the destiny of our profession.



Kathy G. Eddy, CPA
Chairman

Barry C. Melancon, CPA
President & CEO

TIME-HONORED HALLMARKS OF THE PROFESSION

For more than 100 years, independence, objectivity and integrity have been hallmarks of the CPA profession. The profession takes great pride in continuing to preserve these time-honored traditions.

With a self-regulatory system designed to ensure that CPAs fulfill their obligation to the public trust, our profession is a key player in maintaining the stability, security and fairness of capital markets at home and in the emerging global economy. Individual and institutional investors, companies and regulatory bodies depend on full and reliable financial reporting and audits to help them make critical business decisions.

As new technology expands the breadth and scope of business and the demand for up-to-the-minute financial data increases, financial reporting, audits and self-regulation must change to remain relevant. The AICPA has undertaken numerous initiatives this past year to reinforce and adapt these core services, while protecting members' ability to develop and provide new ones that facilitate reliable financial reporting.

Regulating Auditor Independence

New SEC Rule

In the summer of 2000, the Securities and Exchange Commission (SEC) proposed a rule on auditor independence that, if enacted as written, would have significantly altered the auditing landscape. While the SEC's proposal would have affected only firms that audit publicly traded companies, the potential cascade effect of the original proposed rule through adoption by state boards of accountancy and other regulatory bodies threatened to cripple firms that audit privately held companies.

Having received input from a wide spectrum of AICPA members critical of the proposal, the Institute aggressively sought to arrive at a compromise with the SEC that adequately protects the public interest. The compromise also lessens the final rule's effect on the majority of the membership — in particular those in smaller firms. Many of the more restrictive provisions of the proposed rule were jettisoned, modified or otherwise improved.

A major objective of the original proposal was to restrict certain non-audit services a firm may provide to SEC clients. For example, the SEC initially wanted to prohibit firms from providing audit clients with information technology systems design and implementation services as well as internal audit outsourcing services. In the end, the final rule generally allows for IT services, essentially adopting the AICPA's framework. Furthermore, an exception was carved out for organizations with assets of less than $200 million that outsource internal audit work. For these organizations, there is no limit on the amount of outsourcing. A firm may perform up to 40% of the audit client's internal audit work if the business has assets of $200 million or more. Seven other non-audit services also are covered by the final rule, which generally reflects existing AICPA, SEC or SEC Practice Section restrictions on those services.

The SEC initially wanted to prohibit firms from providing audit clients with information technology systems design and implementation services as well as internal audit outsourcing services.

A second major element of the new rule is proxy statement disclosures. The AICPA and its members fought hard to ensure that such disclosures would be reasonable and meaningful. Public companies are now required to report all fees paid to auditors during the past fiscal year for audit, IT consulting and all other services. They also are required to state whether the audit committee considered the compatibility of the auditor's provision of non-audit services with the auditor's independence. In another success, these disclosures are substantially reduced from what was first proposed.

Independence Standards Board

With the November 2000 adoption of the SEC's new rule on auditor independence and a strengthening of the AICPA's Professional Ethics Executive Committee (PEEC) through the addition of public members, the AICPA, SEC and Independence Standards Board (ISB) agreed that the ISB had largely fulfilled its mission. In fact, much of the ISB's work was incorporated into the SEC's new auditor independence rule. Consequently, the ISB ceased operations on July 31, 2001.

The GAO Proposes New Standards

Shortly after the SEC issued its rule, the General Accounting Office (GAO) released an exposure draft proposing revisions to the general standards on auditor independence in *Government Auditing Standards*. The GAO proposal would create an additional set of independence rules that CPAs must adhere to. Although comparable to our independence rules in some respects, the proposed standards differ in several ways, adding to the complexity of independence standards and making audit practice more difficult. Some of the provisions, particularly those relating to bookkeeping and human resources services, also would be especially harmful to smaller entities that rely on the expertise of (usually smaller) CPA firms.

The AICPA initiated a communications effort with members and firms on the potential effects of the proposal. To help them comb through the exposure draft, we prepared a fact sheet and analysis, and a comparative analysis of the AICPA, SEC and proposed GAO independence rules. Representatives of the Professional Ethics Executive Committee met with GAO officials to discuss how our independence standards protect the taxpaying public in the Yellow Book environment. Perhaps most importantly, the GAO received hundreds of letters from CPA firms and their clients expressing their concerns and providing examples of the impact of the proposal on client situations.

The Institute's proposed solution incorporates the AICPA's independence standards by reference to *Government Auditing Standards* or adopts less restrictive rules, especially in the areas of concern for smaller firms. Besides submitting a comment letter, we are meeting periodically with the GAO to resolve issues through the AICPA's independence framework. While no final decisions have been reached by the GAO, a cooperative dialogue exists and attempts at progress toward a solution have been sincere.

AICPA Initiatives

In addition to the efforts of the SEC and GAO, the AICPA has its own initiatives regarding auditor independence. To modernize the rules, the Professional Ethics Executive Committee (PEEC) adopted revisions to Rule 101-*Independence* in September 2001. The new rules embrace an engagement-team-focused approach to independence that extends to those who can influence the engagement — an approach already supported by other independence standards setters, such as the SEC and International Federation of Accountants (IFAC). During the comment period of the exposure draft, a video that was accessible over the Internet was produced covering the issues and impact of the proposal on firms.

Independence Across Borders

The move to shore up auditors' independence does not stop at U.S. borders — an international set of independence rules applicable to members of IFAC is in exposure. The draft takes a principles-based approach to independence rules, similar to that of the European Commission's proposed rules. The PEEC has carefully studied the IFAC proposal and remitted its comments in July 2001.

Maintaining the Public Trust

To uphold the profession's long-standing reputation in the eyes of investors, the business community and consumers, the AICPA launched several initiatives this year to underscore our commitment to maintaining the public trust:

- A new SEC Practice Section (SECPS) membership requirement became effective in January 2001. It requires SECPS member firms subject to litigation alleging deficiencies in the audit of a present or former SEC client's financial statements to conduct a review of the subject engagement and evaluate the senior engagement personnel. If the Ethics Division determines that the matter warrants investigation, the firm must take prescribed actions to safeguard the public from the senior personnel during the ethics investigation. If an investigation uncovers deficiencies, appropriate disciplinary action will be taken.

- In January 2001, the SECPS approved a pilot test of a program that significantly modifies the approach to conducting peer reviews for firms that audit SEC registrants, including "continuous peer reviews" for the largest firms. As part of this program, more in-depth review techniques will be performed on a sample of engagements to better understand the engagement team's approach to the audit; its assessment and evaluation of high-risk areas and emerging issues; and insight into the knowledge, skills, training and experiences of the engagement team.

- In a change particularly beneficial for smaller firms, effective January 2001, the AICPA Peer Review Program was revised to provide a new three-tiered approach to peer review. Systems reviews are for firms that perform engagements under statements on auditing standards and examinations of prospective financial information, while report reviews are available to firms that only perform compilations that omit substantially all disclosures. Engagement reviews are available to firms that perform all other services subject to peer review.

- The AICPA approved a charter for the POB in February 2001, documenting the POB's oversight authority over self-regulatory processes relating to audits of public companies. Among other enhancements or additions to the POB's authority is oversight of the Auditing Standards Board.

- In April 2001, the AICPA Board of Directors agreed to increase public membership on the Professional Ethics Executive Committee to the maximum 25% allowed under the bylaws, beginning in October 2001.

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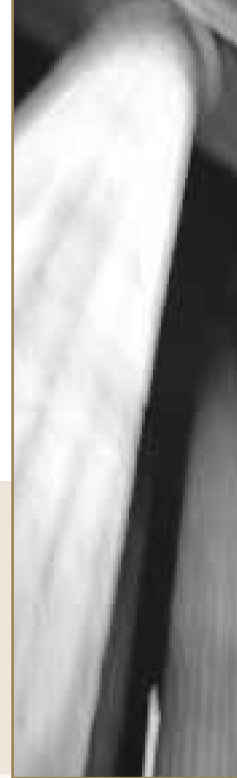

The CPA Franchise: Auditing

A major effort is under way to enhance and update the audit risk model. As the principal public responsibility of the CPA profession, the audit is the bedrock service that best defines and shapes the profession's image and reputation. With this in mind, the Auditing Standards Board this past year initiated the following projects:

- **Risk Assessment Task Force.** The task force is reviewing the risk assessment process in generally accepted auditing standards (GAAS), including the necessary understanding of the client's business and its relationship to audit risks. It also is working with the International Auditing Practices Committee (IAPC) to converge U.S. and international GAAS related to risk assessment.

- **Fraud Task Force.** In response to research projects commissioned by the ASB and the findings and recommendations made by the Panel on Audit Effectiveness, this task force is deliberating ways to improve the efficacy of Statement on Auditing Standards No. 82, *Consideration of Fraud in a Financial Statement Audit*. Changes being considered include improved guidance on how auditors respond to risks of material misstatements resulting from fraud.

- **Tests of Assertions Task Force.** Consisting of members of the ASB and the IAPC, this joint task force is developing a standard that will provide improved guidance on how to use the results of risk assessments to determine the nature, timing and extent of tests of financial statement assertions. In developing its guidance, the task force will use the work of the ASB's Risk Assessment Task Force and the IAPC's Audit Risk Subcommittee.

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Auditing in the Future

The ASB is especially cognizant of the risk of grounding the audit of financial statements in the present. The audit of the future may not be bound to an annual reporting period and may be continuous. Conducted in a highly automated environment where advances in technology enhance the reliability of systems, future audits also may rely more heavily on internal control and less on substantive testing.

Additionally, the digital economy has created a demand for more timely assurance on a broader range of information than that provided by the annual audit of historical financial statements. The ASB already has begun to prepare for this kind of future through the following efforts:

- **Attest Recodification Task Force.** In February 2001, the ASB issued Statement on Standards for Attestation Engagements (SSAE) No. 10, *Attestation Standards: Revision and Recodification,* which supersedes SSAE Nos. 1 through 9. The attestation standards enable practitioners to provide assurance on subject matter other than historical financial statements. One of the primary reasons why the ASB decided to revise the attestation standards was to make them easier for practitioners to use in crafting and performing attest engagements as CPAs increasingly provide assurance on nonfinancial information.

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- **Continuous SysTrust℠ Task Force.** This e-commerce task force has formulated a conceptual model for continuous assurance engagements using the SysTrust attestation engagement. The task force developed a list of assumptions about continuous assurance as well as illustrative procedures and reports for a continuous SysTrust engagement. Findings will be submitted to the Systems Reliability Task Force so that it can develop technologies for providing such assurance.

- **Nonfinancial Information Task Force.** This task force is investigating how an auditor could report on nonfinancial or other information that is not a product of the entity's accounting system, but is included with its financial statements. The task force will work with standards setters to help them establish suitable criteria so practitioners may attest to such information.

- **Sustainability Reporting Task Force.** This joint task force between the ASB and the AICPA's Member Innovation Team is exploring how an auditor might report on an entity's performance in society. This forward-looking business reporting model would include not only economic results, but also information and outcomes pertaining to an entity's environmental and health and safety initiatives.

Harmonizing Accounting and Auditing Standards Around the Globe

The evolving global economy is giving rise to the need for internationally accepted accounting and auditing standards. Harmonizing standards worldwide so that CPAs can participate more readily in the cross-border marketplace, therefore, is a high priority for the Institute.

As a charter member of IFAC, the AICPA is in a position to influence the activities of IFAC and its member bodies. IFAC's International Accounting Standards Committee (IASC) was established this year as an independent, fully compensated accounting standards body with a full-time staff. Trustees of the IASC appointed the International Accounting Standards Board (IASB), which will issue International Accounting Standards. Certain members of the IASB will have the specific responsibility of acting as liaisons between the board and national standards setters which, it is believed, will add to the efficiency of the standard-setting process.

In the auditing arena, the ASB's International Auditing Standards Subcommittee supports the development of international standards. Subcommittee activities include providing technical advice and support to the AICPA representatives and technical advisers to the International Auditing Practices Committee. It also comments on exposure drafts of international assurance standards, participates in international standard-setting projects, presents international issues that affect auditing and attestation standards and practices, and assists the ASB and other AICPA committees in developing and implementing AICPA international strategies.

Success in Tax

In addition to auditing and accounting, the business community, investors and the general public look to the CPA profession for guidance on tax matters. To help CPAs provide tax expertise, the AICPA keeps members informed on Internal Revenue Code regulations and other related developments. It is through this service that the AICPA and its members can exercise the broadest influence.

Obvious examples include the AICPA Tax Division's efforts relating to Social Security, tax simplification, and estate and gift tax reform. For instance, with the future of the federal transfer tax system a hot political issue in 2001, a Tax Division task force studied the system and conducted a survey of practitioners.

It then prepared a report entitled *Study on Reform of the Estate and Gift Tax System.* The study analyzed the pros and cons of numerous alternatives, ranging from outright repeal to substituting a different form of transfer tax. Confirming that significant timely reform was needed, the report was sent to members of Congress and officials at the Department of Treasury and the Internal Revenue Service (IRS) in March 2001. A number of the suggestions were incorporated into the 2001 Economic Growth and Tax Relief Reconciliation Act.

Two other important AICPA proposals were included in the major tax cut bill signed into law by President George W. Bush in early June 2001:

- Major potential traps for the unwary taxpayer or practitioner exist (even if inadvertently) in the generation-skipping transfer tax (GST) portion of the Internal Revenue Code. For several years, the AICPA has been in the forefront of efforts to change the law and ameliorate the potential for punitive GST taxation. Those efforts have now been rewarded; the 2001 Tax Act provides statutory authority for the IRS to grant regulatory relief for late allocations of the GST tax exemption. The proposal also makes other technical changes to the GST tax rules that will substantially alleviate the traps that have existed. While the GST tax is supposed to be moving toward full repeal, that would not occur before 2010 under the new law, and taxpayers need help now in avoiding these pitfalls.

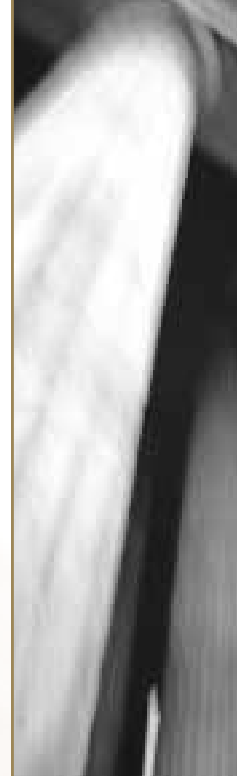
- With urging from the AICPA, Congress included the Institute's retirement education proposal in the tax bill so employers can provide retirement advice to employees on a tax-free basis; that is, the cost of the advice is deductible to the employer but is not included in an employee's income.

Marriage penalty relief, long-supported by the AICPA, also was included (if in limited form) in the tax bill. It phases in as of 2005.

Fiscal Year-End Flexibility

Higher on the list of priorities again is fiscal year-end flexibility — the ability of so-called pass-through entities (S corporations and partnerships) to select the fiscal year end that best fits their operations instead of being locked into a calendar year. Besides being out of step with their business cycles, a calendar year end has put a tremendous burden on the workload of practitioners — condensing most of their tax work into a short time span during the first quarter of the year.

Because of the change in recent years from persistent federal budget deficits to projected continuing surpluses, there has been more hope that business tax relief could become a reality. The latest winds of change in the nation's capital have not been kind to this effort, however (an economic slowdown, the shift in political control of the Senate and the September 11 attacks raising fears of a full-fledged recession). The Institute will, nonetheless, continue looking into the possibility of some liberalization of the fiscal-year rules for a limited number of pass-through entities, recognizing that revenue timing to the government, through tax deferral, will be a critical factor in their acceptance of any proposals.



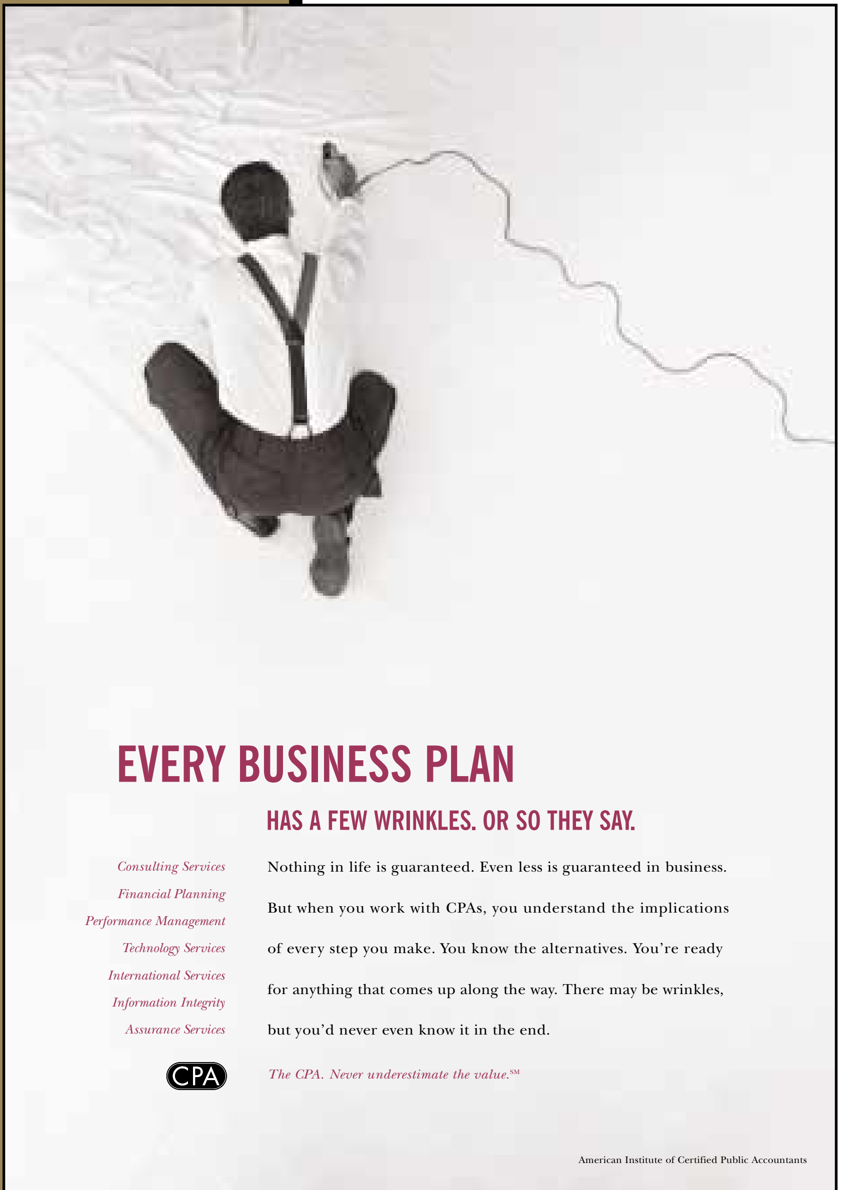
Initiatives for Business and Industry, Government Members

Projects to assist members in business and industry, our largest member segment, also took center stage this past year. A task force of the AICPA's prestigious Group of 100 was established to explore products and services specifically for industry members. The task force produced a report, and its recommendations have been assigned to appropriate staff and committees, for implementation.

In addition, a Web-based survey on best practices in performance measurement was completed, garnering nearly 2,000 responses from those in finance or operations areas. A report on the results was prepared and placed online, and information from the survey was featured in AICPA publications.

Types of Performance Measures
Revenues/Sales
Net Operating Income
Year-Over-Year Growth
Gross Margin
Earnings Before Interest and Taxes (EBIT)
Cash Flow
ROA/ROI (Return on Assets/Return on Investment)
EPS (Earnings per Share)
EVA® (Economic Value Added)

Assessing the roles of members in business and industry from the perspectives of the practitioner as well as the organization was another challenge we met this year. Also, a survey of members in government was conducted to better understand these members' roles. The research efforts shed light on how the CPA credential is viewed and valued. Insights gleaned from the research will be used to develop programs and services for members in industry and in government.



Being the Advocate for the Profession

Serving as the profession's advocate continues to be one of the primary responsibilities of the AICPA. Following are some examples of how we are meeting this mission:

- The Institute has been working with the Federal Trade Commission (FTC) to obtain an exemption for CPAs to the privacy disclosure requirements of the Gramm-Leach-Bliley Act. The act contains provisions intending to protect the privacy of a consumer's personal financial information that is held by anyone who provides tax planning, financial planning or tax preparation services. To help practitioners comply with the FTC's regulations, the AICPA prepared a practice guide that was posted online. Because of the AICPA's ethics rules regarding confidentiality, the Institute's position has been from the onset that CPAs should be exempt. We are hopeful of obtaining regulatory relief.

- Thanks to the AICPA, a commission established to study privacy issues for Congress is required to investigate third-party verification as an enforcement mechanism for Internet transactions. WebTrust for Online Privacy provides such verification.

- In testimony before a House of Representatives subcommittee, the Institute tells congressional leaders that uniform international accounting standards will encourage the global flow of capital, but that standards setters, regulators and the accounting profession should carefully consider the need to modernize the financial reporting system as well.

The Image of the Profession

Near and dear to all CPAs is the image they project in the marketplace — and not just in the hallmarks of the profession or in the delivery of core services. CPAs and the Institute also care deeply about the awareness and appreciation among business decision makers and individual consumers of the broad range of services CPAs can provide. Importantly, this image also translates into the attractiveness of the profession as a career choice for students.

National CPA Image Enhancement Campaign

Further strengthening the profession's image, the AICPA completed the sixth year of its national image enhancement campaign. In this year's campaign, a network radio media strategy was used for the first time and an innovative partnership program with the state CPA societies helped boost local placement of the national campaign.

The AICPA advertised on national radio networks in news, talk and music formats to broaden the reach and increase awareness of the CPA brand among key target audiences. In prior years, radio advertising was placed exclusively by the state societies.

Also this past year, the Institute conducted a pilot cooperative advertising program with the state societies. Through this arrangement, participating states were able to receive matching funds and incentives from the Institute to expand local placements of the national ads. With this extra funding, advertising spending increased in the state's geographic markets, thereby raising visibility at the state level. More than 30 states enthusiastically participated in the program, applying for matching funds and boosting advertising to an unprecedented level. Given its success, the advertising partnership program will be continued next year.

Recruiting Future CPAs

Molding the profession's image to attract young people is a complex challenge. Despite the extensive student recruitment efforts over the past several years, recent independent studies show a steady decline in accounting majors. What's more, only 1% of high school students are planning on majoring in accounting, down from 4% in 1990.

With the very existence of the profession at stake, the governing Council in May 2001 approved funding for a new $25 million, five-year direct marketing campaign aimed at helping 16 – 22 year olds understand the career opportunities afforded by the CPA profession. The campaign will show students how CPAs work with diverse businesses in an environment that is global, technological and ever-changing.

The program is being developed by Wunderman, the world's largest customer relationship marketing solutions company. State CPA societies will be active participants in the campaign, which is expected to launch by the end of 2001.

Three factors make this upcoming effort unique. First, extensive use will be made of the Internet and other interactive media. In addition, the Institute will have the ability to test, refine and adjust messages throughout the campaign. Lastly, the campaign's effectiveness will be tracked and measured on a regular basis.

Through this aggressive direct-dialogue effort, the AICPA and state CPA societies believe the profession can influence students' understanding of the Vision-aligned CPA and the many possibilities presented by a career in the profession (research shows students find the "Vision CPA" to be quite appealing). The ultimate goals are to reverse the trend of young people shying away from accounting and increase the number of CPAs entering the profession.

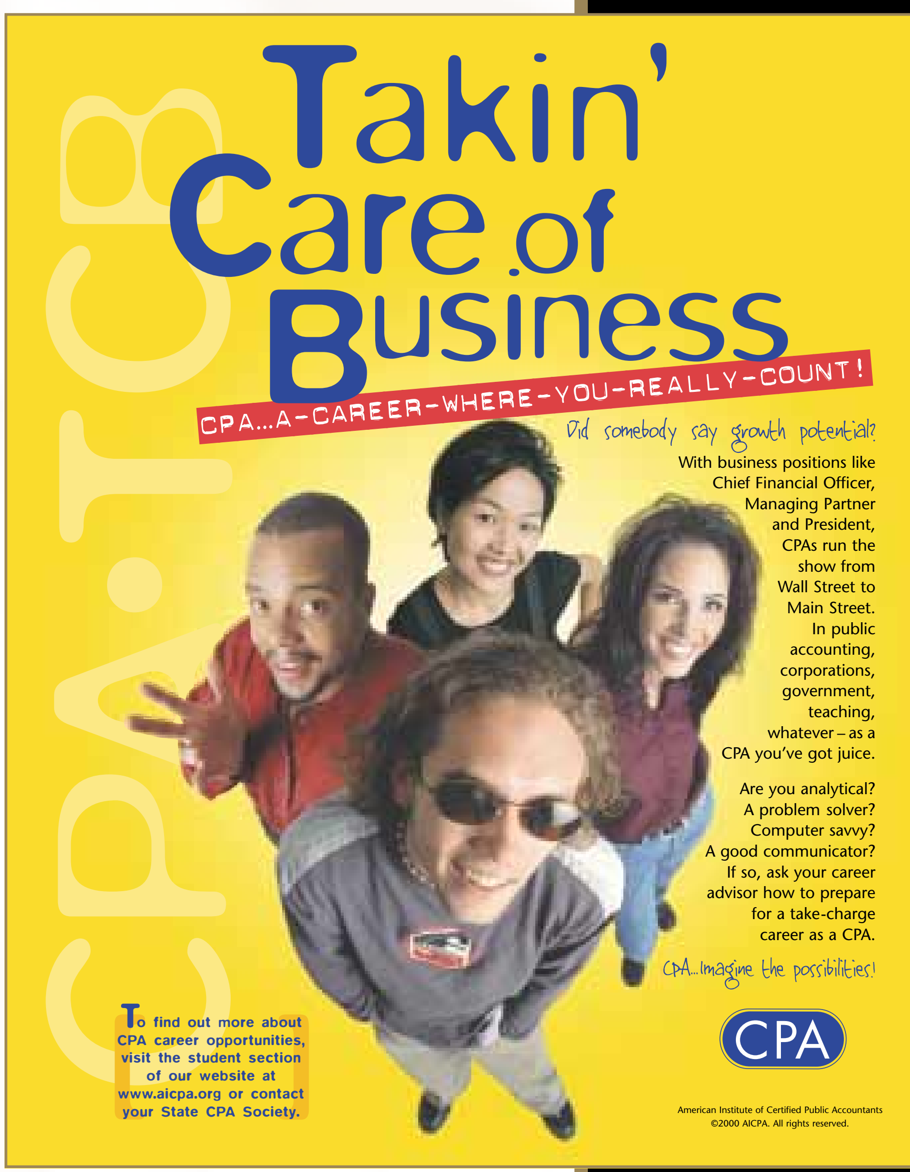
A Never-Ending Push for Students

The AICPA is committed to increasing the number of qualified CPA candidates through numerous initiatives. Among these are the CPA Information Package, a curriculum kit, high school educators' symposium, a teacher internship program, and scholarships and alliances.

- In fall 2000, the Institute launched its "Takin' Care of Business" campaign — highlighted by an award-winning video and print items. The recruiting materials, referred to as The CPA iPACK (for information package), focus primarily on high school students and include a video, 25 career guides, a poster and a presenter's guide. Combining animation with real-life profiles, the video uses a high school career day as a backdrop for discussing career opportunities in accounting and as a CPA.

Armed with information from an academic study assessing students' interest in and barriers to pursuing the CPA credential, Wunderman will develop an integrated communications solution with goals to:

- **Increase awareness of the CPA profession among high school and college students.**
- **Improve perception of the profession among these groups.**
- **Encourage enrollment in business and accounting courses and ongoing educational efforts leading to majoring in the field.**
- **Increase the consideration rate of pursuing CPA certification.**



- A popular curriculum kit used by educators to promote the CPA profession is being updated and renamed. *Takin' Care of Business Education Handbook* will be released toward the end of 2001 and will be included with the iPACK materials. These materials, as well as panel presentations by local CPAs, are the focus of the High School Educator Symposiums that have been held successfully in many states.

- With support from the AICPA Foundation, the Institute is developing a resource guide for state CPA societies to help them coordinate a Teacher Internship Program (TIP) in their states. The TIP is designed to promote educational excellence and relevance by connecting education to the business world.

- Rounding out the recruitment drive are alliances with Accountemps, the National Academy Foundation (NAF) and Future Business Leaders of America (FBLA). Accountemps has provided money for two scholarships for AICPA Student Affiliate Members to encourage studies in accounting. The NAF and FBLA alliances help to strengthen the CPA message and presence at the high school level.

Changing the Faces of CPAs

Not only is it essential to increase the number of qualified CPA candidates, it is imperative that the face of the accounting profession reflects today's society. The AICPA is striving to improve diversity in the work force through various initiatives aimed at developing a pipeline of future CPAs from all walks of life.

This past year, the Institute funded several proposals for college residency programs led by state CPA societies, minority organizations and schools of accountancy at colleges and universities. These programs offer high school juniors and seniors an opportunity to learn about business and accounting by exposing them to exciting and charismatic speakers and role models in the profession. Over the past five years, the Institute has provided seed funding for 18 programs throughout the country.

Scholarships were awarded to 255 undergraduate and graduate accounting students. Renewable scholarships were awarded for the first time to graduating high school seniors who participated in the college residency programs. In addition, recognizing that professors have significant influence over their students' academic direction and helping diversify the front of the classroom, 18 minority doctoral students around the nation received AICPA fellowships.

The Institute also continued to promote the profession to minority students through advertisements in magazines with high minority readership. The "Be a Star…Be a CPA" campaign consists of catchy ads that refer to a professional athlete's CPA as one of the most valuable players on the athlete's "business team."

Keeping the CPAs We Have

With accounting enrollments at colleges continually declining — partly because of the emerging lucrative career paths in knowledge services (e.g., computer consultants, financial planners) — the profession cannot afford to lose its recruits. To avert a staffing crisis, the AICPA is studying how CPAs view their careers and employment situations and what would encourage them to stay on the job.

Recently, the PCPS Executive Committee Task Force on Staffing surveyed "top talent" at member firms. Managing partners were asked to select top performers (non-owners) to complete a survey measuring job satisfaction, company culture, management style, career track and motivation/rewards. Based on the survey's findings, the task force developed a dozen recommendations for an improved work environment, ranging from competitive salaries and other employment benefits to regular staff meetings and more comfortable office surroundings.

Computerizing the Exam

For the Uniform CPA Examination — the point of entry for the profession — to continue to help CPAs protect the public, it is essential that the exam test for skills demanded in today's marketplace. Hence, the move to convert the current paper-based exam to a computer-based format. Only through a computerized exam can we efficiently assess the skills CPAs have identified as being essential for entry-level CPAs: organization, communication, research and analysis.

A computerized exam will provide us with the ability to evaluate real-world situations (which can be interactive) by employing state-of-the-art tools, such as spreadsheets, word processing and professional databases. Through the use of such technologies, candidates will be able demonstrate their skills and knowledge across subject areas.

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Furthermore, among the many other advantages of a computer-based test is the convenience factor. A computerized exam could be taken on any one of approximately 200 dates and at many convenient locations around the country. CPA candidates could essentially take the exam on demand. The revamped exam is scheduled to be offered in November 2003.

A possible by-product of the new exam is that it could help reposition the profession among aspiring CPAs. Making the exam more contemporary, relevant and accessible will prove to future CPAs that the profession is modern, adaptable and interesting. Working with state boards of accountancy and the National Association of State Boards of Accountancy, the AICPA has made meeting this November 2003 target a high priority.

BUILDING OPPORTUNITIES

Just as we are devoted to strengthening the hallmarks of the profession and our bedrock services, we also are committed to ensuring that CPAs are ready and able to respond to market demands and economic opportunities. Over the years, the profession has very successfully expanded into markets far beyond those contemplated by prior generations of CPAs. Through numerous initiatives begun during the past year, the Institute is providing the tools members need to capitalize on the professional pathways of the future.

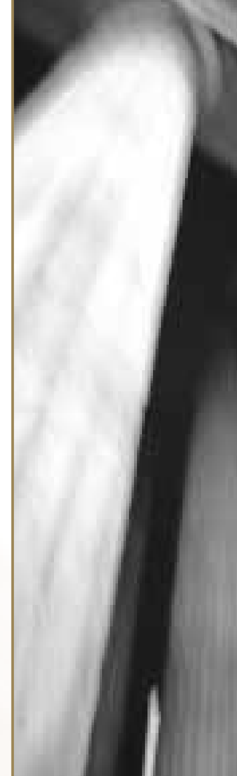
Member Innovation Team

The new Member Innovation Team was established to better serve the membership and more efficiently utilize the AICPA's resources. With this move, the AICPA will transform how it develops and delivers products and services by adopting many of the techniques and best practices used by CPA firms and business organizations.

By funneling projects and initiatives through this new area, the Institute will eliminate duplication of efforts, streamline processes and create a single research and development pipeline. It also will allow for better coordination when introducing new products and services, so that appropriate guidance, education or other support materials can be provided to members more quickly.

AICPA member Innovation

The Member Innovation Team's reach extends beyond our borders as well. Through the International Innovation Network, the AICPA spreads its intellectual property to other countries, enabling foreign accountancy institutes to understand and implement our development efforts, resulting in global marketing power. Conversely, we can tailor services developed by other countries for deployment in local U.S. markets. Currently, 20 countries are represented in the International Innovation Network.



Center for Investment Advisory Services

As CPAs broaden their financial planning practices and begin to offer or expand investment planning services to their clients, the AICPA and www.cpa2biz.com — the profession's business services portal — are adding to the breadth and depth of information and education to support members in this complex and nontraditional endeavor. Case studies, decision-making checklists, basic educational information and a start-up guide are some of the items developed to help members enter this service.

For those advancing in the field, offerings include software products, news and market commentary, and the support of our strategic providers, such as Fidelity Investments Institutional Brokerage Group.

Meeting Market Demands with New Services

Driving markets to members by identifying and cultivating new niches is yet another high priority for the Institute. In response to market forces, the AICPA continues to provide new offerings as part of its family of business assurance and advisory services. The Institute is harmonizing the WebTrust℠ and SysTrust℠ offerings to simplify the two in the marketplace and to allow for their superior delivery in the information technology space while retaining their brand identities.

WebTrust

WebTrust provides e-commerce solutions to businesses with the opportunity to also obtain a related seal of assurance on various elements of electronic transactions. In a major coup, Microsoft selected the WebTrust for Certification Authorities service as part of its program for accepting certification authorities wishing to distribute their root certificate through Microsoft software. Microsoft's root certificate program allows the hundreds of millions of Microsoft customers to shop securely on the Internet, as well as to send or receive secure e-mail or share encrypted files. This WebTrust achievement opens opportunities for CPAs to provide assurance services related to e-business transactions.

Developed jointly with the Canadian Institute of Chartered Accountants (CICA), WebTrust is an international service. So far, practitioners in 20 countries outside North America have performed WebTrust engagements.

SysTrust

With the exponential growth in organizations relying on information technology, it is critical that their systems be secure, available when needed and consistently able to produce accurate information. The AICPA and CICA developed SysTrust to provide such assurance.

With SysTrust, a CPA can evaluate the reliability of a system through various criteria that define the principles of availability, security, integrity and maintainability. If a system meets these requirements, an unqualified attestation report is issued. The report also addresses whether management has maintained effective controls over its system.

The AICPA supported the development of a Web-enabled service to help small- to medium-size CPA firms effectively prepare for and deliver SysTrust engagements to clients. This tool also helps CPAs in industry understand the SysTrust criteria and allows them to document what they have done to comply with those criteria, enabling them to demonstrate to management or board of directors the company's progress toward reliable systems.

Serving Mature Clients

A recent survey commissioned by the AICPA found that 11% of small-firm revenues was derived from services provided to individuals over age 65 — not surprising as this is the fastest-growing segment of our nation's population. ElderCare Services are designed to help CPAs cater to this market niche.

The first annual ElderCare Conference was held in October 2000 in conjunction with the Canadian Institute of Chartered Accountants. In addition, thanks to cooperation between the AICPA and the state CPA societies, ElderCare Express training programs are being offered in 10 states around the country. These programs present the five recommended AICPA ElderCare courses as a group, so practitioners can take up to all five courses in one week and in one convenient location.

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Moving Into Performance Measurement

Given their skill sets, CPAs are extremely well positioned to add value in the business performance measurement process. Performance measurement helps businesses understand whether they are reaching certain milestones along the way to achieving their stated objectives. Providing such a service helps CPAs become the complete business adviser that clients and employers need to improve their businesses.

CPA Performance View is the centerpiece of the AICPA's efforts in this area. Through workshops and associated training manuals, powerful software tools and practice guides, CPAs learn how to deliver performance measurement services to clients or employers.

Assessing Risk

During the past few years, many of our members, especially those in business and industry, have become involved in risk advisory services. Capturing the essence of these services is *Managing Risk in the New Economy,* a white paper published in spring 2001. The white paper serves as a springboard from which the Institute can develop consultative, advisory and assurance service lines that the profession can deliver effectively.

Future Services

In its quest to open doors of opportunity for its members, the AICPA is continually developing new business assurance and advisory programs. Through monitoring the market, tracking trends among consumers and assessing business needs, we are creating additional services for CPAs to deliver to clients and employers.

When it comes to privacy in the marketplace, for example, people think first of the online environment. But privacy protection isn't limited to computer-based transactions. The AICPA, believing that CPAs are perfectly suited to take on this new market space, is working to develop an assurance product that would cover the offline privacy world as well.

Another important area is sustainability — a new concept among businesses and the investment community. Sustainability measures how corporations behave in their roles as responsible citizens in preserving economic, social and environmental tenets beneficial to the community. CPAs can serve businesses by validating the information that corporations report regarding the roles they play in the community and by looking at the performance measures they are planning to cite.

XBRL: CPAs Leading the Way in Technology

The AICPA has spearheaded a far-reaching effort to create a new, revolutionary software language called XBRL (eXtensible Business Reporting Language). This initiative helps position CPAs at the top of the information value chain as the most trusted business advisers to the companies and clients they serve. Supported by more than 95 of the world's largest technology, accounting and financial services organizations, XBRL is an XML-based business reporting software language that allows financial information to be exchanged across all software formats and technology platforms using the power of the Internet.

Launched in July 2000, *XBRL for Financial Reports* was enhanced in July 2001 to harmonize with the new World Wide Web Consortium (W3C) *XML Schema*. This allowed the XBRL Committee to better align itself with initiatives of the W3C and other XML organizations moving toward global interoperability of information. In addition, the committee announced

XBRL for General Ledger to comply with international accounting requirements. This positioned XBRL as an extensible, flexible, multinational and fully interoperable solution for the exchange of data that internal finance teams, external auditors, creditors, banks or other audiences are seeking. It also will allow the future linkage to XML development initiatives for everything from the transactional level to the general ledger level as these frameworks are developed.

With both public and private companies excited by the prospect of presenting their financial information in this format, several software developers already have launched XBRL-enabled products in the marketplace. Deployment and use of XBRL by companies will position CPAs to provide important value reporting based on financial information tagged using XBRL. The technology, financial, accounting and general business media have realized the impact of what is being developed and are devoting extensive coverage to the XBRL Committee's work.

Expanding the initiative overseas, the XBRL Committee joined forces with the International Accounting Standards Board (IASB) to develop *XBRL for IASB*. This taxonomy is based on International Accounting Standards and will help many countries, including those in Europe and Asia, to develop and implement XBRL for financial statements. Users of this specification could more easily bridge the gap among operational, off-site or outsourced systems and their back-office accounting and reporting systems.

Competence in Nontraditional Areas

Maintaining the public's trust is at the forefront of all the profession's service offerings. Business decision makers, investors, consumers and regulators know they can depend on CPAs to deliver high-quality, reliable performance. Our reputation as trusted advisers spans the history of the CPA profession.

It is essential that this hallmark of the profession extend beyond our bedrock services. Nontraditional and emerging services must be included as well.

Accrediting CPA Specialties

Pairing the CPA credential with one signifying competence in a specialty area demonstrates the CPA's competence in the marketplace while helping the member promote services considered nontraditional for our profession. Validation of knowledge and skills in such services for CPAs is especially important because competitors from these other areas abound.

The National Accreditation Commission (NAC) is charged with bringing specialty accreditations to fruition. Besides launching a designation in information technology and changing eligibility requirements for the Personal Financial Specialist designation, the NAC is evaluating other possible credential programs, including litigation services and eldercare services.

Technological Savvy

In the summer of 2000, the commission introduced the Certified Information Technology Professional (CITP) designation. More than 400 members have earned the designation in the program's first year.

Candidates for the CITP designation are evaluated on a multiple entry point system that covers three areas: business experience, lifelong learning and examination. To earn the designation, CPAs must amass 100 points based on their work, educational activities and, possibly, the CITP exam.

Personal Financial Planning

The success of CITP's multiple entry point system paved the way for the same approach to be used for the Personal Financial Specialist (PFS) designation. Launched in January 2001, the new eligibility requirements were designed to recognize alternative methods for determining a CPA's qualifications and competence to deliver personal financial planning services.

The new guidelines encompass a broad definition of business experience (which now includes teaching), provide for a new lifelong learning component and recognize other "PFP-related" exams. More than 275 members have applied for the PFS credential through this approach.

Branding a Whole New Set of Competencies

In an unprecedented move to unleash virtually limitless opportunities for its members, the AICPA assembled an international consortium of accounting organizations to develop a new global business credential. Honoring the CPA profession's 100-year tradition of quality and integrity, this visionary emblem would denote a skilled, experienced strategist with a knowledge base that crosses disciplines, and would complement current credentials. The market need for such a credential signifies that today's professionals operate in a new economy where the old rules no longer apply as fully as they once did.

Development of a professional business credential that would be recognized worldwide originated with the AICPA Strategic Planning Committee exploring how to help the profession best realize the CPA Vision. This global business credential will represent a professional's ability to integrate knowledge from many disciplines to create value and build wealth for organizations and individuals. Because the global credential incorporates our profession's knowledge and skills as part of its foundation, the credential would serve to complement and extend the capabilities defined by the CPA designation.

Further progress on establishing the credential in the marketplace depends upon the AICPA membership. AICPA members will, subject to Council review at its October 2001 meeting, be voting in the fall of 2001 on a bylaw change to allow the AICPA to set up a separate, self-funded entity that would issue the global credential in the United States. Ballots would be returned to the Institute by the end of 2001.

To educate members about all the issues — pro and con — surrounding the global credential, and to ensure that a consistently informed membership votes on the ballot referendum, the governing Council in May 2001 passed a resolution authorizing a comprehensive member information and response campaign.

As part of the communications campaign, members were presented with results of earlier research commissioned by the AICPA and the Global Credential Steering Committee but conducted by independent research firms. Surveys showed that the proposed credential had appeal with both potential credential holders and those who could hire or buy the services of credential holders. In fact, the research showed 83% of employers would be more likely to hire someone who earned the global credential for a senior strategic business planning position and 75% of clients would be more likely to engage a professional services firm that employs credential holders. About half of senior executives volunteered a willingness to pay a premium for credential holders (on average about 14% for an employee and 11% for a professional services firm).

Equally compelling, the survey of college students and accounting majors found that when the global credential was introduced as an addition to the Vision-aligned CPA, students' interest in both credentials jumped. What's more, very few accounting students indicated they would choose to obtain only the credential and not the CPA — fully 83% of all college students see the credential as a complement to, not a substitute for, the CPA. The research also uncovered a high level of appeal for the concept of a CPA and global business credential combination. This combination seems powerful enough to attract students not currently on the accounting track.

As with any initiative, the global business credential concept is not without critics. Some believe that the proposed credential may be needed 20 years from now, but that it is not appropriate to pursue at this time. Some worry that it could diminish the CPA brand. Still others argue the credential should be available only to CPAs, while others hold that this approach would amount to rebranding the CPA. These were important issues for each member to consider in preparation for the membership referendum.

To help disseminate and sort through the mound of information on the proposed credential, the AICPA set up the Global Credential Member Information Center. Among other things, the Center maintains a frequently updated Web site that contains the credential's business plan, a competency framework document, frequently asked questions and a feedback section. It also serves as the destination point for members' inquiries and comments.

An essential component of the proposed global credential is that it requires applicants to integrate knowledge from a variety of business specialties

and cultures. The credential is not a license to deliver a specific set of services, but rather a measure of one's knowledge and competencies. Recognizing that the lines between formerly distinct disciplines are fading, the credential marries a professional's foundational designation with a credential that demonstrates a different and unique business function. Consistent with this interdisciplinary approach, professionals from other disciplines would be eligible to earn the credential.

Besides the many professions that would eventually be a part of this new credential, many countries must be involved for it to in fact be a global credential. At the moment, accounting institutes in Canada, Australia, New Zealand and, most recently, Italy and France are participants in the initiative. The credential would be administered by a new international organization that would establish global standards of ethics and competency, thereby contributing to higher and more consistent quality in the worldwide business service marketplace. National credential-granting organizations would be created to issue the credential in accordance with the global standards for admission. In the U.S., this credential-granting organization would be a new, self-funded entity separate from the AICPA. The AICPA would remain focused on its advocacy for the CPA profession.

CPA2Biz — Built by CPAs for CPAs

In June 2001, CPA2Biz celebrated the launch of its first phase with the introduction of a business services Internet portal — designed to complement other CPA2Biz marketing and distribution activities. CPA2Biz is a comprehensive provider of professional services, application solutions, tools, value-added information and resources for CPAs, both offline — through direct mail, call centers, conferences and trade shows — and online at www.cpa2biz.com. Developed by CPAs for CPAs, CPA2Biz is designed to move CPAs up the information value chain as the most trusted business advisers, thereby enhancing the value of CPAs to the organizations and clients they serve. CPA2Biz is the primary marketing and distribution organization for the AICPA, focused on offering AICPA products and tools, including publications and training programs.

STRENGTHENING OUR FOUNDATION, BUILDING OPPORTUNITIES

Formed as a direct outgrowth of the profession's CPA Vision process, CPA2Biz got its early start as CPAWeb.org, a collaborative effort of the AICPA and virtually all of the state CPA societies. CPA2Biz is focused strictly on meeting the needs of CPAs and the organizations they serve by leveraging multiple distribution channels and providing information technology, marketing, product, service and content development resources.

CPA2Biz offers professional services to CPAs through its *CPA Services* hub: a comprehensive, customizable portfolio of tools and resources, including in-depth market intelligence and news, professional products and services, networking communities, educational and training programs and career resources. The *CPA Services* hub is composed of Resource Centers that are organized around practice areas.

When the second phase is launched in 2002, CPA2Biz will offer application solutions to CPAs through its *Financial Services* and *Small Business Services* hubs. Each will offer a strategic and secure portfolio of cost-effective, Web-based application solutions and tools for CPAs and the organizations they serve. These include a suite of accounting, payroll, customer relationship management, 401(k) administration, merchant services, cataloging, order processing and other applications that CPAs also can offer to their business clients and employers. It is designed to provide services to CPAs while not competing with CPAs.

Thus, CPA2Biz will help position the CPA as the key e-enablement professional for small and midsize businesses — whether those enterprises represent the CPA's clients or employers. Providing services to organizations that otherwise would be left out of global e-commerce and bringing new business possibilities to our members are CPA2Biz's primary goals.

CPA2Biz℠

As this report makes clear, our activities this past year focused largely on solidifying our hallmarks, shoring up our bedrock services and carving pathways to new opportunities. All are essential and must be done in tandem.

We cannot stand idle while the business environment around us is in constant motion. It is imperative that we adapt our profession and ourselves to remain relevant and strong for generations to come.

And we must cross boundaries to claim market space where we can thrive. Whether those boundaries are new service offerings unimagined by the CPAs who came before us or new business endeavors in foreign lands, the AICPA is working to open the doors of opportunity for its members.

SOURCES AND OCCUPATIONS OF AICPA MEMBERSHIP

	1989	1991	1993	1995	1997	1999	2001
Total AICPA Membership *(excluding student and other affiliates)*	286,358	301,410	314,427	323,779	329,019	336,635	336,081
Public Accounting	45.8%	43.2%	42.2%	40.7%	39.6%	39.5%	38.9%
Business & Industry	39.9%	40.7%	40.3%	41.7%	43.1%	46.2%	46.6%
Education	2.7%	2.8%	2.3%	2.4%	2.4%	2.4%	2.3%
Government	3.7%	3.9%	4.3%	4.4%	4.4%	4.3%	4.1%
Retired & Miscellaneous	7.9%	9.4%	10.9%	10.8%	10.5%	7.6%	8.1%
Membership in Public Practice	131,014	130,078	132,821	131,887	130,439	133,036	130,870
Firms with one member	23.8%	24.1%	23.2%	23.2%	23.1%	22.8%	21.6%
Firms with 2–9 members	33.8%	35.2%	35.8%	36.5%	36.2%	34.7%	34.1%
Firms with 10 or more members, except the 25 largest firms	17.3%	18.8%	20.0%	20.4%	21.0%	21.6%	22.8%
25 largest firms	25.1%	21.9%	21.0%	19.9%	19.7%	20.9%	21.5%

Management's Discussion and Analysis

In 2001, the AICPA focused its efforts on strengthening the quality of the audit process, modernizing independence rules, protecting the public, showing leadership in technology, addressing the needs of members in business and industry, and developing new services for members in public practice.

The Institute committed significant resources to begin the process of addressing all of the POB's Panel on Audit Effectiveness, which last year concluded that audit quality is sound but offered suggestions for improvement. New standards and guidance to improve the risk-based audit model are being developed, and an enhanced peer review program along with a streamlined disciplinary process for auditors of public companies have been implemented in response to the many recommendations received. New initiatives were introduced to promote the need for higher quality of earnings reporting.

The AICPA raised public policy and regulation concerns with a General Accounting Office proposed standard on auditor independence in *Government Auditing Standards.* It also responded to the AICPA leadership's and members' opposition to its proposed rule on auditor independence. In addition, significant resources were required in seeking modifications of a proposed Securities and Exchange Commission rule on scope of services and independence. The SEC voted on a negotiated compromise that reflected many of our major professional and public interest concerns. In achieving a compromise, the AICPA achieved protection from the rule for smaller firms in the critical service areas of information technology consulting and internal audit outsourcing.

Based on research conducted, the AICPA made several suggestions for overhauling the estate and gift tax system that made their way into the 2001 Economic Growth and Tax Relief Reconciliation Act signed into law in June. Thanks to the suggestions adopted, major potential traps for unwary taxpayers or practitioners were eliminated or mitigated.

To streamline the development and delivery of valuable new products and services, the AICPA established the Member Innovation Team. One of the projects the team is involved in is an international consortium of more than 95 organizations, headed up by the AICPA, which developed and launched the eXtensible Business Reporting Language (XBRL). XBRL supplied an XML-based framework that is revolutionizing the way businesses create, exchange and analyze financial reporting information.

Throughout the year, the AICPA participated in an international consortium with related accounting bodies in Canada, Australia, New Zealand, France and Italy for further development of a proposed global credential. This initiative emanated from the AICPA Strategic Planning Committee and was brought to the AICPA Council by the Board of Directors in March 2000. Since that time, various education and communication programs have been underway to prepare the membership for a possible vote on the initiative. During the three fiscal years of work on the project, the AICPA — using its normal strategic planning costs — spent less than three-quarters of one percent of its budget on this project. In May 2001, AICPA Council authorized a member ballot on the initiative subject to the potential of further consideration by Council during its October 2001 meeting.

All of these initiatives were designed to move the profession closer to realizing the aspirations outlined in the CPA Vision while preserving and extending the critical role CPAs play in society. The Institute further strengthened the profession's image as well through the sixth year of the national image enhancement campaign — which for the first time had a national network radio strategy — and a state CPA society cooperation component.

In June 2000, CPAWEB.org, a collaborative effort of the AICPA and most state CPA societies, was launched along with an innovative online learning library that enabled CPAs across the country to access information on a real-time basis. 18% of our members took advantage of this exciting new member service. The success of this online service led to the expansion in 2001 of the online electronic product line to include professional standards and E-MAP.

During the year, CPA2Biz, Inc. (C2B), a majority-owned subsidiary of the AICPA, began operations. The AICPA previously had determined that non-profit dues-based organizations face significant challenges in having sufficient resources to build the type of technology platforms necessary to effectively meet Internet-based solutions that add value for their members. Therefore, in May 2000, the AICPA Council, on the recommendation of the AICPA Board of Directors, authorized the creation of C2B for the purposes of establishing a CPA-focused portal to deliver high-technology-based services for CPAs, their clients and employers. The concept of C2B was to raise outside capital for purposes of investing in a technology platform and thus, minimizing the risk of members' dues dollars while maximizing the potential to employ technology for member benefits. During the year, C2B raised over $47 million, and was successful at raising additional capital after year end. As expected of a company heavily dependent on technology, a significant amount of those funds were expended on technology platforms and further technology investments are expected in the future.

The consolidated financial statements of the AICPA include C2B assets, liabilities and operations. While C2B's start-up loss reflects negatively on the consolidated operations of the Institute, the AICPA, as a stand-alone entity, is not liable for any of the obligations of C2B and, as a stand-alone entity, performed at a level of revenue and expenses approximating its budget.

In June 2001, C2B launched its first phase with the introduction of a business services Internet portal designed to complement other C2B marketing and distribution services. The development of this Web site was made possible due to financing received from its strategic partners. Well over $15 million has been spent to ensure the Web site is both robust and state-of-the-art.

The AICPA relationship with C2B is primarily governed by a marketing and distribution agreement. In accordance with this agreement, C2B, among other things, conducts marketing and product distribution activities for AICPA products, CPE and publications. The agreement provides that the AICPA is made whole from a cost recovery and profit margin perspective based on historical sales trends. While developing new services and value-added products for the CPA community, C2B is prohibited from competing with the AICPA in numerous areas and competing with CPAs in public practice who offer services directly to clients. The C2B Web site brands the AICPA and the participating state societies and provides preferential discounts for members of those organizations. To ensure technical accuracy and protection of the public, the AICPA retains certain controls over content and C2B is required to meet certain quality control criteria. In addition, as a part of the marketing and distribution agreement, the AICPA and participating state societies receive a royalty from C2B's operations and the AICPA retains certain termination rights based on C2B performance. The relationship between AICPA and C2B allows the AICPA to better focus on public interest activities — including traditional standards setting, self-regulatory and new product development activities — while providing revenue streams to offset part of the cost of those activities.

The AICPA has worked closely with all of the state CPA societies over the last year in carrying out the CPA Vision. Shared Services LLC (SSLLC) was formed in late 2000 with substantially all of the state CPA societies participating. SSLLC continued to move forward in 2001 to begin the process of constructing and managing a consolidated membership database and to develop other shared services that would eliminate administrative duplicity and recognize economies of scale.

Operating revenue was $164.9 million in 2001 compared to $161.0 in 2000, an increase of $3.9 million or 2.4%. This increase is mainly due to an increase in member dues, the successful launching of the online learning library, and higher conference sales. This increase is offset by lower sales of paper-based publications and lower group-study revenue. The lower group-study revenue is the result of a decision made in 2000 to make this product available to state societies at no charge for AICPA members and at a minimum charge for non-AICPA members to strengthen relationships with those state societies.

Operating expenses of $202.7 million in 2001 compares to $164.9 in 2000, an increase of $37.8 million or 22.9%. The increase is due predominately to the activities of the newly funded C2B entity. This increase also is attributed to increased support for the technical and self-regulatory areas and computerization of the CPA Examination.

During the year, the AICPA, as a stand-alone entity, had operating results of $756,000 excess revenue over expenses before the equity in the loss of SSLLC and intercompany eliminations. This compares favorably to budgeted results of $200,000 revenue over expenses. In addition, C2B's original projections at formation expected a substantial loss from operations in the first 12 months due to technology investments. The loss for the period ended July 31, 2001, which represents the first six months of C2B operation post funding, was in line with the projected losses for the first 12 months of operations.

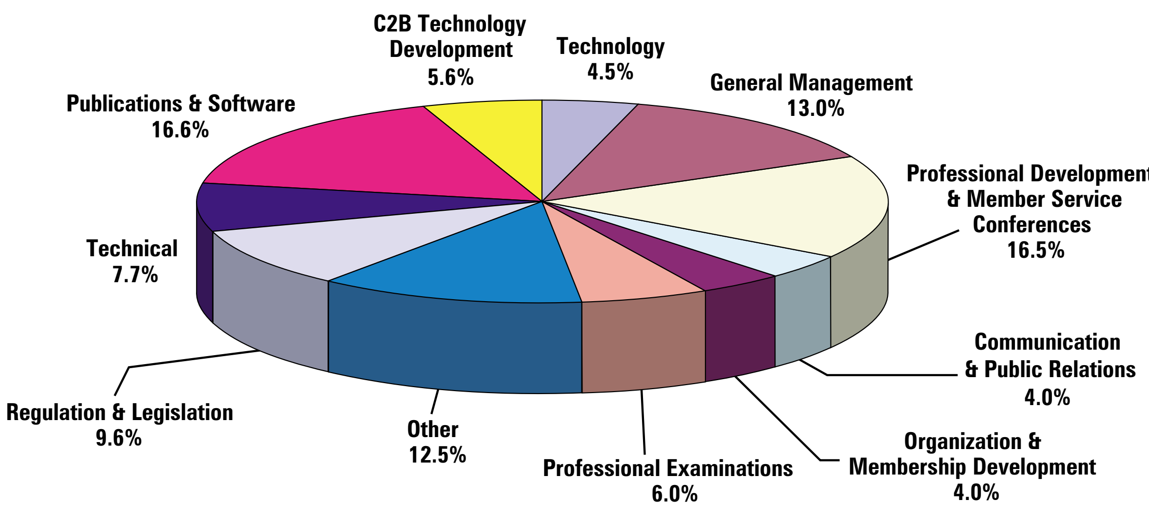
Cash flow used in operating activities was $3.6 million in 2001 as compared to $3.4 million in 2000. As previously discussed, investments were made in various technology projects during the year, including C2B, content conversion, and computerization of the CPA Examination.

At July 31, 2001, the AICPA and related organizations have a strong financial position with excellent liquidity. The current liquidity along with the anticipated 2002 operating results should be sufficient to finance planned operations other than C2B activities. While C2B currently has adequate liquidity at July 31, 2001, it will continue from time-to-time to align with other strategic partners. The AICPA was in compliance with the AICPA Board of Directors' target of a 20-25% ratio of net assets to annual revenue.

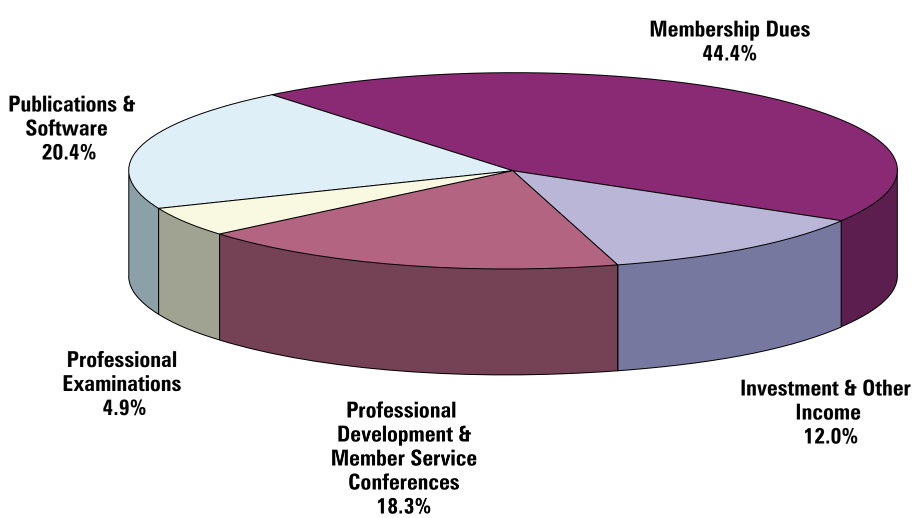
C2B's planned operations for 2002 include continued significant investments in building the technology platforms necessary to meet users' current and future needs. At the AICPA level, operations are expected to approximate historical levels on an annual basis, which will allow for continued support of traditional AICPA services, Vision implementation and self-regulatory activities. During 2002, it is anticipated that the AICPA will make significant investments in a new computer-based CPA Examination, implementation associated with new standards and guidance in the audit area, and new product development activities. The AICPA also will be making a $5 million investment in a new student awareness program to address a significant negative trend in accounting program enrollments in colleges and universities. It is anticipated that this will be the first year of a five-year commitment in that area. Since the AICPA continues to focus on operating efficiency and maximizing member value, there was no dues increase to members for Fiscal 2002.

The events of September 11, 2001 and the impact of a slowing U.S. economy can potentially have a negative impact on both AICPA and C2B operations as it relates to certain programs, meetings and events. These implications will be closely monitored to balance the need to provide effective member service and to be fiscally responsible.

OPERATING EXPENSES BY ACTIVITY



OPERATING REVENUES 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 accounting principles generally accepted in the United States of America 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, 2001, its internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition met those criteria.

J.H. Cohn LLP also was engaged to report separately on the Institute's assessment of its internal control 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 Operating 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, 2001 and 2000, and the related combined statements of activities, preferred stock and net assets 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 auditing standards generally accepted in the United States of America. 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, 2001 and 2000, and the changes in their net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

J.H. Cohn LLP

Roseland, New Jersey
October 10, 2001

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, 2001, 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 management's assertion 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, management's assertion 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, 2001, is fairly stated, in all material respects, based on criteria established in *"Internal Control — Integrated Framework"* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

J.H. Cohn LLP

Roseland, New Jersey
October 10, 2001

Financial Statements
July 31, 2001 and 2000

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND RELATED ORGANIZATIONS

COMBINED STATEMENTS OF FINANCIAL POSITION
JULY 31,

	2001	2000
	($000)	
Assets:		
Cash	**$ 23,462**	$ 2,109
Marketable securities	**98,160**	92,783
Accounts and notes receivable (less an allowance for doubtful accounts: 2001, $1,570,000; 2000, $1,588,000)	**13,476**	15,090
Inventories	**1,205**	1,329
Deferred costs and prepaid expenses	**22,702**	13,764
Goodwill	**4,000**	
Furniture, technology and leasehold improvements, net	**17,901**	23,393
Totals	**$ 180,906**	$ 148,468
Liabilities:		
Accounts payable and other liabilities	**$ 34,004**	$ 27,232
Advance dues	**35,025**	25,482
Unearned revenue	**17,883**	20,223
Long-term debt	**11,400**	1,200
Deferred rent	**15,094**	15,161
Deferred employee benefits	**16,333**	15,751
Totals	**129,739**	105,049
Preferred stock and net assets:		
Preferred stock of C2B	**47,500**	–
Net assets:		
Unrestricted:		
AICPA and related nonprofit organizations	**44,070**	45,265
C2B	**(41,051)**	(2,494)
Total unrestricted	**3,019**	42,771
Permanently restricted	**648**	648
Total net assets	**3,667**	43,419
Total preferred stock and net assets	**51,167**	43,419
Totals	**$ 180,906**	$ 148,468

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

CHANGES IN UNRESTRICTED NET ASSETS:

	2001	2000
	($000)	
Operating revenue:		
Dues	**$ 73,234**	$ 70,012
Publications and software	**33,585**	35,195
Professional development and member service conferences	**30,221**	28,337
Investment and sundry income	**18,102**	17,248
Professional examinations	**8,144**	8,925
Contributions	**1,661**	1,311
Total operating revenue	**164,947**	161,028
Operating expenses:		
Program services:		
Publications and software produced for sale	**27,313**	23,682
Professional development and member service conferences	**33,448**	27,178
Member services:		
Regulation and legislation	**19,418**	17,727
Technical	**15,689**	14,799
Publications	**6,257**	6,484
Other	**18,297**	11,857
Professional examinations	**12,121**	11,240
Communications and public relations	**8,113**	7,011
Support and scholarships	**6,500**	6,510
Assistance programs	**648**	963
Supporting activities:		
General management	**26,366**	19,941
Organization and membership development	**8,134**	9,456
Technology	**9,083**	8,029
C2B technology development	**11,286**	
Total operating expenses	**202,673**	164,877
Deficiency of operating revenue over expenses	**(37,726)**	(3,849)
Gains (losses) on marketable securities:		
Realized	**1,597**	1,219
Unrealized	**(2,376)**	(178)
Totals	**(779)**	1,041
Change in unrestricted net assets before minority interest	**(38,505)**	(2,808)
Minority interest	**(1,247)**	350
Change in unrestricted net assets	**(39,752)**	(2,458)
Unrestricted net assets, beginning of year	**42,771**	45,229
Unrestricted net assets, end of year	**$ 3,019**	$ 42,771

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

($000)

	AICPA and Related Nonprofit Organizations	C2B	TOTAL
2001:			
Preferred stock		$47,500	$47,500
Net assets:			
Unrestricted	$44,070	(41,051)	3,019
Permanently restricted	648		648
Total net assets	44,718	(41,051)	3,667
Totals	$44,718	$ 6,449	$51,167
2000:			
Net assets:			
Unrestricted	$45,265	$ (2,494)	$42,771
Permanently restricted	648		648
Total net assets	45,913	(2,494)	43,419
Totals	$45,913	$ (2,494)	$43,419

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

	2001	2000
	($000)	
Increase (decrease) in cash:		
Operating Activities:		
Cash received from members and customers	**$ 168,378**	$ 150,207
Interest and dividends received	**5,237**	4,447
Cash paid to suppliers, employees and others	**(176,130)**	(157,252)
Interest paid	**(107)**	(136)
Income taxes paid	**(996)**	(634)
Net cash used in operating activities	**(3,618)**	(3,368)
Investing Activities:		
Payments for purchase of amortizable assets	**(11,332)**	(1,877)
Payments for purchase of furniture and technology	**(5,143)**	(1,535)
Payments for purchase of marketable securities	**(105,534)**	(170,476)
Proceeds from sale of marketable securities	**99,385**	178,774
Net cash provided by (used in) investing activities	**(22,624)**	4,886
Financing activities:		
Proceeds from sale of common stock	**95**	169
Proceeds from sale of preferred stock	**47,500**	
Net cash provided by financing activities	**47,595**	169
Net increase in cash	**21,353**	1,687
Cash, beginning of year	**2,109**	422
Cash, end of year	**$ 23,462**	$ 2,109

Reconciliation of change in unrestricted net assets to net cash used in operating activities:

	2001	2000
Change in unrestricted net assets	**$ (39,752)**	$ (2,458)
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation and amortization	**7,438**	6,673
Gain on sale of marketable securities	**(1,597)**	(1,219)
Amortization of unearned revenue	**(1,845)**	(1,783)
Unrealized loss on marketable securities	**2,376**	178
Minority interest	**1,247**	(350)
Compensation arising from issuance of common stock	**451**	
Equity in net loss of SSLLC	**461**	
Provision for:		
Losses on accounts and notes receivable	**(21)**	367
Obsolete inventories	**306**	800
Deferred rent	**(68)**	(124)
Deferred employee benefits	**1,094**	1,283
Changes in operating assets and liabilities:		
Accounts and notes receivable	**2,030**	(487)
Inventories	**(182)**	(97)
Deferred costs and prepaid expenses	**4,030**	(4,477)
Accounts payable and other liabilities	**11,878**	3,803
Advance dues	**9,543**	(8,158)
Unearned revenue	**(495)**	3,111
Deferred employee benefits	**(512)**	(430)
Total adjustments	**36,134**	(910)
Net cash used in operating activities	**$ (3,618)**	$ (3,368)

Supplementary disclosure of noncash investing and financing activities:

	2001	2000
Purchase of amortizable assets financed through trade payables	**$ 2,846**	$ 4,974
Issuance of debt for services	**$ 7,200**	
Issuance of debt for business acquisition	**$ 3,000**	
Issuance of common stock for business acquisition	**$ 140**	
Issuance of common stock for note receivable	**$ 50**	

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

Notes to Combined Financial Statements July 31, 2001 and 2000

1. Organization

The financial statements include the accounts of the American Institute of Certified Public Accountants ("AICPA"), its majority-owned, for-profit subsidiary, CPA2Biz, Inc. ("C2B"), (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, C2B 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. C2B is the sales, marketing and distribution subsidiary for AICPA products and other member services. The Division, consisting of both the Partnering for CPA Practice Success/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 ("SSLLC"), a limited liability company, for the purpose of managing a consolidated membership database and other shared services between the AICPA and participating state societies (see Note 11).

2. Summary of Significant Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 also is limited because the Institute deals with a large number of customers in a wide geographic area. Consequently, as of July 31, 2001, 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.

The AICPA accounts for its 50% investment in SSLLC on the equity method.

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 $8,491,000 and $9,126,000 for the years ended July 31, 2001 and 2000.

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, also are 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.

On July 20, 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, *Business Combinations* (SFAS No. 141), and No. 142, *Goodwill and Intangible Assets* (SFAS No. 142). SFAS No. 141 is effective for all business combinations completed after June 30, 2001. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001; however, certain provisions of SFAS No. 142 apply to goodwill and other intangible assets acquired between July 1, 2001 and the effective date of SFAS No. 142. Major provisions of these statements and their effective dates for the Institute are as follows:

All business combinations initiated after June 30, 2001 must use the purchase method of accounting. The pooling-of-interest method of accounting is prohibited except for transactions initiated before July 1, 2001.

Intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability.

Goodwill, as well as intangible assets with indefinite lives, acquired after June 30, 2001 will not be amortized.

Effective August 1, 2001, goodwill and intangible assets with indefinite lives will be tested for impairment annually and whenever there is an impairment indicator.

All acquired goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting.

The Institute has adopted the provisions of Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of* (SFAS No. 121). Under SFAS No. 121, impairment losses on long-lived assets, such as equipment and furnishings and intangible assets, are recognized when events or changes in circumstances indicate that the undiscounted cash flows estimated to be generated by such assets are less than their carrying value and, accordingly, all or a portion of such carrying value may not be recoverable. Impairment losses are then measured by comparing the fair value of assets to their carrying amounts.

Research and development costs related to the computerization of the CPA Examination amounted to $1,637,000 and $827,000 for the years ended July 31, 2001 and 2000.

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. C2B is organized as a for-profit entity.

C2B accounts for income taxes pursuant to the asset and liability method which requires deferred income tax assets and liabilities to be computed annually for temporary differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the temporary differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

C2B follows Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123). Under SFAS No. 123, C2B continues to apply Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), to account for its stock-based employee compensation arrangements.

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 2000 financial statements have been reclassified to conform with the current year's presentation.

3. Marketable Securities

Marketable securities consist of:

	2001		2000
		($000)	
U.S. Treasury obligations	**$22,644**		$28,728
Bonds and notes	**48,405**		27,115
Equities	**27,111**		36,940
Total fair value	**98,160**		92,783
Excess of fair value over cost	**1,905**		4,281
Total cost	**$96,255**		$88,502

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

Investment income consists of:

	2001		2000
		($000)	
Dividends and interest	**$4,661**		$4,447
Realized gains	**1,597**		1,219
Unrealized losses	**(2,376)**		(178)
	$3,882		$5,488

4. Inventories

Inventories consist of:

	2001		2000
		($000)	
Paper and material stock	**$ 144**		$ 267
Publications in process	**145**		241
Printed publications and course material	**916**		821
	$1,205		$1,329

5. Furniture, Technology and Leasehold Improvements

Furniture, technology and leasehold improvements consist of:

	2001		2000
		($000)	
Furniture	**$ 7,861**		$ 8,547
Technology	**27,638**		28,547
Leasehold improvements	**15,471**		15,347
	50,790		52,441
Less accumulated depreciation and amortization	**33,069**		29,048
	$17,901		$23,393

6. Long-Term Debt

Long-term debt consists of the following:

	2001		2000
		($000)	
AICPA (A)	**$ 1,200**		$ 1,200
C2B (B)	**7,200**		
Acquired entities (C)	**3,000**		
	$11,400		$ 1,200

(A) The note bears 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 $834,000.

(B) The note is unsecured, bears interest at 10% and requires principal payments of $3,600,000 in September 2001; $600,000 in August 2002 and $3,000,000 in October 2003. The AICPA has no obligation under the note.

(C) The note arose in connection with an acquisition (see Note 10) and bears interest at 8% per annum. The note provides for C2B to receive defined credits based on performance by C2B which are to be applied against the principal balance. Exclusive of the credits, the principal is payable $510,000 in September 2002; $1,245,000 in June 2003 and $1,245,000 in June 2004. The note is secured by all of the outstanding common stock of the acquired entities. The AICPA has no obligation under the note.

Based on borrowing rates currently available, the fair value of long-term debt at July 31, 2001 is approximately $10,853,000.

Principal amounts due under the above obligations in years subsequent to July 31, 2001 are $3,600,000 in 2002; $2,355,000 in 2003; $4,245,000 in 2004 and $1,200,000 in 2014.

7. Commitments and Contingencies

Lease Commitments

The Institute has several long-term leases for the rental of real estate, one of which is with a related party. The related party lease is between C2B and the parent of one of its preferred stock investors and the AICPA has no obligation under the lease. 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 $15,093,000 and $15,161,000 as of July 31, 2001 and 2000.

Minimum rental commitments on noncancelable real estate and equipment leases in effect as of July 31, 2001, exclusive of future escalations for real estate taxes and building operating expenses, are:

Year Ending July 31,	($000)
2002	$ 10,955
2003	10,635
2004	10,242
2005	9,932
2006	9,637
Years subsequent to 2006	40,996
	$ 92,397

Included in the minimum rental commitments is $1,230,000 in 2002 and $318,000 in 2003 due to the related party. Rental expense for the years ended July 31, 2001 and 2000 was $11,912,000 and $11,514,000.

During 2000, the AICPA entered into a noncancelable sublease. The total of minimum rentals to be received in the future under the sublease, which expires in 2012, amounts to $15,789,000 as of July 31, 2001. Sublease income amounted to $1,395,000 and $466,000 for the years ended July 31, 2001 and 2000.

Line of Credit

The AICPA has available, but unused, a line of credit with a bank for short-term borrowings of up to $10,000,000, 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 $17,000,000. At July 31, 2001, the account has securities with a market value of $41,225,000. The line of credit expires on January 31, 2002.

Other Transactions

C2B has entered into a two-year agreement with one of its Preferred Stock Investors ("PSI") whereby C2B has agreed to use the PSI's technology and other services of the PSI on an as-needed basis. However, at a minimum, C2B is required to use approximately $500,000 per annum of such services.

In addition, C2B entered into an agreement with another PSI to purchase a minimum of $5,000,000 of products and services from the PSI through October 2002.

Pursuant to an operating agreement between C2B, the original investors ("Original Investors") of the acquired entities (see Note 10), certain other entities, certain employees of the Original Investors and certain representatives of the other entities, the parties agreed to a bonus payment which requires C2B to pay the Original Investors an aggregate of $360,000 in January 2002. In addition, if during the two-year period ending July 2003 the Original Investors meet certain marketing and performance levels, C2B is required to pay up to approximately $2,900,000 in either cash or common stock to such Original Investors.

Litigation

In October 2001, a national accounting firm brought an action against the AICPA, C2B and SSLLC alleging, among other things, restraint of trade and unfair competition which seeks to enjoin the defendants from continuing the operations of C2B. Management of the AICPA, C2B and SSLLC believe the action is without merit.

8. Employee Benefit Plans

The Institute sponsors a noncontributory defined benefit pension plan for qualifying employees. The following table sets forth the plan's funded status and the amounts recognized in the statement of financial position:

May 1,	**2001**	2000
	($000)	
Projected benefit obligation	**$53,430**	$50,316
Plan assets available for benefits at fair value	**56,992**	58,910
Plan assets in excess of projected benefit obligation at end of year	**$ 3,562**	$ 8,594
Accrued pension cost	**$ (5,595)**	$ (5,764)

Based on borrowing rates currently available, the fair value of long-term debt at July 31, 2001 is approximately $10,853,000.

Principal amounts due under the above obligations in years subsequent to July 31, 2001 are $3,600,000 in 2002; $2,355,000 in 2003; $4,245,000 in 2004 and $1,200,000 in 2014.

7. Commitments and Contingencies

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Accrued pension cost	**$ (5,595)**	$ (5,764)

Net pension income was $169,000 for the year ended July 31, 2001 and net pension expense was $603,000 for the year ended July 31, 2000. Benefits paid amounted to $2,584,000 and $2,945,000. There were no employer contributions in 2001 and 2000.

Economic Assumptions:	**2001**	2000
Discount rate	**7.25%**	7.25%
Expected long-term rate of return on plan assets	**9.00%**	9.00%
Rate increase in future compensation levels	**4.65%**	4.65%

The AICPA and C2B also sponsor separate 401(k) defined contribution plans covering substantially all employees meeting minimum age and service requirements. Participation in the plans is optional. Employer contributions are made to the plans in amounts equal to a certain percentage of employee contributions. The cost of these plans was $905,000 and $881,000 for the years ended July 31, 2001 and 2000.

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, 2001 and 2000 was $1,263,000 and $681,000.

The accumulated postretirement obligation as of May 1, 2001 and 2000 was $11,552,000 and $11,519,000. Accrued postretirement benefit costs included in the accompanying statement of financial position were $10,737,000 and $9,988,000.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.25% in 2001 and 2000. The weighted average health care cost trend rate used in measuring the postretirement benefit expense was 8.5% and 9% in 2001 and 2000 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 2001 and 2000 paid $513,000 and $430,000.

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 2001, the AICPA also made a $75,000 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 annual commitment was $2,850,000 for both calendar years 2001 and 2000. The ARA also makes a best-efforts commitment to raise funds for support of the GASB. The annual commitment was $490,000 for both calendar years 2001 and 2000. It is anticipated the ARA will continue to support the FASB and GASB.

10. CPA2Biz, Inc.

The AICPA, with authorization from the Board of Directors and Council, organized C2B 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 AICPA members and their clients and employers).

In January 2001, the AICPA and C2B entered into a ten-year agreement, which shall be renewable for additional ten-year periods, based on the achievement of certain performance criteria (the "Agreement"). The Agreement, which began February 1, 2001, gives C2B exclusive rights to market, sell and distribute substantially all of the commercial products of the AICPA and other third-party products. Under the terms of the Agreement, C2B is required to pay a variable royalty, which is calculated as a percentage of net sales, as defined, and a fixed royalty (the "Royalty"). The Royalty is intended to provide the AICPA with its historical profit related to the products licensed to C2B assuming the historical levels of sales volume and product mix remain the same. In addition, the aggregate amount of the Royalty for the first two years of the Agreement shall not be less than $43,000,000 annually and thereafter shall not be less than $36,000,000 annually. Separate from the terms of the Agreement, C2B also purchased, at recorded value, certain operating assets, assumed certain liabilities and reimbursed the AICPA for certain operating expenses paid by the AICPA prior to February 1, 2001 for a net payment of $15,110,513. Additionally, C2B leases office space from the AICPA in New York and New Jersey at an annual rental of approximately $3,058,000. All of the above has been eliminated in combination.

The aggregate number of shares of all classes of stock which C2B is authorized to issue is (i) 200,000 shares of common stock, par value $.01 per share ("Common Stock") and (ii) 75,000 shares of preferred stock, par value $.01 per share, of which 50,000 shares shall be designated 8% Series A Convertible Mandatory Redeemable Preferred Stock (the "Series A Preferred Stock").

As of July 31, 2001, the 25,000 authorized shares of preferred stock, which are not considered to be Series A Preferred Stock, have not been issued.

Common Stock has voting rights, but no liquidation privileges. Dividends can only be paid after the holders of Series A Preferred Stock have received the dividends to which they are entitled.

During the year ended July 31, 2000, C2B sold 100,000 shares of Common Stock. The AICPA and other co-founders of C2B purchased 95,150 shares of Common Stock for approximately $950. Shares purchased by the co-founders were acquired for less than fair value and, accordingly, the difference between the amount paid and fair value was recorded as compensation. Senior management of the AICPA purchased shares of Common Stock for $169,750 based on an independent third-party valuation obtained at formation. During the year ended July 31, 2001, C2B sold shares for approximately $145,000. The shares were purchased by outside third parties, including outside directors of C2B. In addition, C2B issued 980 shares in connection with an acquisition.

All of the shares were purchased for fair value with the exception of one transaction with an outside director in 2001 for 130 shares for approximately $50,000. A note receivable was received in lieu of cash. The note was paid in September 2001. Compensation expense of $171,472 was recorded for the difference between the amount paid and the fair value of the stock for the transaction with the outside director.

The following table summarizes the common shares issued by C2B during the years ended July 31, 2001 and 2000:

	Number of Shares	Common Stock	Additional Paid-in Capital
Year ended July 31, 2000:			
AICPA	90,000	$ 900	
Co-founders	5,150	51	$ 180,198
AICPA senior management	4,850	49	169,702
Balance, July 31, 2000	100,000	1,000	349,900
C2B directors and employees	247	2	94,988
Below market shares	130	1	221,469
Issuance of options below market			2,550,471
Acquired entities	980	10	139,990
Balance, July, 31 2001	101,357	$1,013	$3,356,818

The Series A Preferred Stock differs from Common Stock in that it receives preferential status in the case of a liquidation, receives cumulative dividends at a rate of 8% before any Common Stock dividends can be paid, converts into Common Stock at the option of the holder, has an anti-dilutive provision which, based on a defined formula, increases the number of shares of Common Stock issued for each share of Series A Preferred Stock if a Common Stock transaction is completed with a lower per share price than the initial preferred stock price of $1,704.27 per share and is, at the option of the holder, redeemable by C2B on January 11, 2008.

Dividends shall be payable in additional shares of Series A Preferred Stock or cash, at the option of C2B. At July 31, 2001, C2B has accrued, but not paid, $1,933,302 of preferred stock dividends. Minority interest for the year ended July 31, 2001 is net of preferred stock dividends.

The holders of Series A Preferred Stock vote with the holders of Common Stock as if they were a single class.

On January 11, 2001, C2B issued 23,470 shares of Series A Preferred Stock for net proceeds of $39,999,280. An additional 4,400 shares of Series A Preferred Stock were issued on April 6, 2001, which resulted in proceeds of $7,500,000.

In October 2001, C2B issued Series A Preferred Stock for net proceeds of approximately $10,000,000.

In September 2000, C2B established a stock option plan (the "Plan") which provides for the issuance of stock options solely to key employees and consultants of C2B and not AICPA employees. Under the terms of the Plan, incentive stock options are granted to eligible employees to purchase shares of Common Stock in C2B at a price not less than 100% of the fair market value on the date of grant. The Plan does allow for nonqualified grants of stock options with an exercise price set below the fair market value of the Common Stock when approved by the C2B Board of Directors. There were two such grants made to employee officers of C2B during the year ended July 31, 2001, which resulted in $2,550,471 of deferred compensation. The deferred compensation expense is being amortized over the vesting period of the related options. Amortization expense for the year ended July 31, 2001 was $279,976. The options generally vest over a period of four years and are exercisable for a period of ten years from the date of grant. Under the Plan, C2B reserved 16,959 shares of Common Stock.

In connection with an acquisition, C2B issued 92 options to certain employees of the acquired entities.

The following table summarizes activity under the Plan:

	Shares Under Option	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
Granted	14,108	$643.78	–	
Exercised				
Cancelled	(336)	846.18	–	
Outstanding at July 31, 2001	13,772	638.84	–	

The following table summarizes information about stock options outstanding under the Plan at July 31, 2001:

	Options Outstanding		
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$0 – $ 470.54	10,901	9.3 years	$ 426.04
$470.55 – $2,045.00	2,871	9.8 years	1,480.63
Total	13,772		638.84

As permitted by SFAS 123, C2B applies APB No. 25 and related interpretations in accounting for its Plan and other stock-based compensation issued to employees.

The weighted-average fair value of options granted during the year ended July 31, 2001 was approximately $151.

Had compensation cost for C2B's Plan been determined based upon the fair value at the grant date for awards under the Plan consistent with the methodology prescribed under SFAS 123, C2B's net loss would have been increased by approximately $220,000 for the year ended July 31, 2001. The fair values of options granted to employees have been determined on the date of the respective grant using the Black-Scholes option pricing model incorporating the following weighted average assumptions: (i) range of risk-free interest rates from 4.64% to 6.18%, (ii) dividend yield of 0.00%; (iii) expected life of five years; and (iv) volatility of 0.001%.

In July 2001, C2B acquired all the outstanding shares of a financial services firm. The purchase price of $4,000,000 consisted of the issuance of a $3,000,000 note (see Note 6), the issuance of 980 shares of Common Stock and approximately $860,000 of other direct acquisition costs. C2B also issued 980 additional shares of Common Stock which are contingent upon the acquired entities meeting certain performance levels. The acquisition was accounted for under the purchase method of accounting.

Summarized consolidated financial information of C2B as of and for the years ended July 31, 2001 and 2000 is as follows:

	2001		2000
		($000)	
Total assets	**$ 52,112**		$ 5,963
Total liabilities	**$ 42,219**		$ 8,107
Preferred stock	**47,500**		–
Common stockholders' deficiency	**(37,607)**		(2,144)
	$ 52,112		$ 5,963
Revenue	**$ 29,276**		$ –
Net loss	**$ (36,150)**		$ (2,494)

At July 31, 2001, C2B has deferred tax assets of approximately $14,000,000, which arise primarily from net operating loss carryforwards for Federal income tax purposes of approximately $19,000,000 expiring in 2021 and certain other temporary differences. Due to the uncertainty of the realization of the deferred tax assets, a full valuation allowance has been provided at July 31, 2001. The timing and manner in which the net operating loss carryforward can be utilized in any year by C2B may be limited by the Internal Revenue Code.

11. Shared Services, LLC

SSLLC was formed on May 19, 2000 as a Delaware limited liability company organized for the purpose of constructing, managing and licensing a consolidated membership database and other shared services with participating state societies. SSLLC's members consist of the AICPA and State Societies Network, Inc. ("SSNI"). SSNI is comprised of substantially all of the individual state societies of certified public accountants located throughout the United States.

Pursuant to an interim agreement with C2B, SSLLC receives royalties in the amount of 1.75% of C2B's gross profits, as defined. Such royalties are to be paid to SSNI. In addition, SSLLC receives additional royalties from C2B based on operating expenses incurred up to a maximum of $5,000,000 annually. C2B and SSLLC are currently negotiating a multiyear agreement with substantially the same terms. At July 31, 2001, SSLLC has a receivable from C2B in the amount of approximately $797,000 (net of approximately $500,000 of interest imputed at 15%) which is payable in various installments through July 2005.

SSLLC derives 100% of its operating revenue from C2B. As such, SSLLC is dependent upon the continued existence of C2B.

Summarized financial information of SSLLC as of and for the year ended July 31, 2001 is as follows:

	($000)
Total assets	$ 1,374
Total liabilities	703
Members' equity	$ 671
Revenue	$ 4,231
Net loss	$ (921)
AICPA's share of net loss	$ (461)

12. Net Assets

Net assets and changes in net assets for the years ended July 31, 2001 and 2000 follow:

	Balance, August 1, 1999	Increase (Decrease)	Balance, July 31, 2000	Increase (Decrease)	Balance, July 31, 2001
			($000)		
Unrestricted:					
AICPA	$35,399	$ (735)	$34,664	$ (1,334)	$33,330
C2B		(2,494)	(2,494)	(38,557)	(41,051)
Division	1,876	335	2,211	(522)	1,689
ARA	979	2	981	14	995
Benevolent Fund	3,602	216	3,818	367	4,185
Foundation	3,373	218	3,591	280	3,871
	45,229	(2,458)	42,771	(39,752)	3,019
Restricted:					
Foundation:					
Library Fund	648		648		648
	$45,877	$(2,458)	$43,419	$(39,752)	$ 3,667

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

AICPA Board of Directors 2000 – 2001

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