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Annual Report

2002–2003

CPAs: UNCHANGING VALUES

OBJECTIVITY ■ INTEGRITY ■ COMPETENCE

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*Also view the 2002–2003 Annual Report by visiting the AICPA online at www.aicpa.org.

A Message To Members From The…

Chairman and President

William F. Ezzell, Chairman, and Barry C. Melancon, President and CEO

Without doubt, the past 12 months have brought enormous changes to all of corporate America and to the CPA profession. We have witnessed a wave of unprecedented legislative and regulatory reform, much of which the AICPA had called for well in advance of the recent high-profile corporate failures. Over the past year, we have worked with great vigor to advocate for reforms that rebuild public confidence in both the nation's financial reporting system and in our profession.

In summer 2002, President Bush signed the Sarbanes-Oxley Act into law. Even though its implications are still emerging, we know it is shifting our profession's boundaries. At the same time, we are confident that this law upholds and enhances what the CPA profession stands for. Our core values of integrity, competence and objectivity are the bedrock on which more than 335,000 CPAs across the United States perform their duties.

While the media have covered every corporate failure and accounting irregularity with great zeal, few have acknowledged the honest contributions of the hundreds of thousands of CPAs who conduct themselves in accordance with the profession's distinguished values. Our efforts over the past year have focused on earning these good men and women their due.

As you will see in the following pages, we've gone to significant lengths to help our members and the federal government implement the Sarbanes-Oxley Act to maximize its intended impact. We've done this because we acknowledge and actively seek solutions to the very serious and complex problems plaguing the landscape of American business.

To this end, we have launched a comprehensive Antifraud and Corporate Responsibility Program, proposed enhancements to the AICPA's disciplinary process, and developed new, relevant and exacting guidance for CPAs. We also have leveraged the collective expertise of our members as we work with the Securities and Exchange Commission (SEC) and the newly established Public Company Accounting Oversight Board (PCAOB) to implement the law's provisions for public companies and their auditors. The Institute will continue to provide transitional assistance to the PCAOB as it establishes its registration, inspection and standard-setting processes for those firms that audit SEC registrants.

While we vigorously support the Sarbanes-Oxley Act, we want to ensure that it improves the financial reporting process without significant unintended consequences harmful to small businesses, the lifeblood of the U.S. economy, and the CPAs who serve them. In our comment letters on the SEC's proposals to implement Sarbanes-Oxley, we argued for several positions that ultimately found their way into the final rules. These include a clarification that audit firms may continue to provide tax and other services to audit clients subject to audit committee pre-approval, as well as an alternative to the partner rotation requirement for CPA firms with fewer than five SEC clients and fewer than 10 partners.

We're working diligently, in close cooperation with the state CPA societies, to monitor proposals at the state level that would apply certain provisions of Sarbanes-Oxley inappropriately to nonpublic companies and the CPAs serving them. With this in mind, last fall we created the Special Committee on State Regulation, led by former AICPA Chairman Kathy Eddy. We support a reasoned approach to reviewing the numerous state legislative and regulatory proposals that have come on the heels of the federal legislation. The Special Committee is working to ensure that the complexity of the issues is communicated. We also continue our commitment to the uniformity of state laws, which we see as essential to protecting the public interest. Thanks to the cooperative efforts of the AICPA, the state societies and the National Association of State Boards of Accountancy, the profession has had success to date

in convincing state lawmakers not to support proposals that would have unintended negative consequences.

These efforts at the state level underscore one emerging fact of the changing regulatory environment: The users of financial statements of public companies subject to the Act have different needs from the users of financials prepared by private companies. For this reason, the AICPA Board of Directors has begun to study the need for auditing and attest standards for private companies and the impact that such standards would have on the purpose and structure of the AICPA's Auditing Standards Board (ASB). We also have created a new staff position, Vice President of Small Firm Interests, to ensure that the voice and issues of small firms and the businesses they serve are part of every AICPA endeavor.

At the same time, we recognize that our profession, among others, needs to take bold steps to rebuild investor confidence. One way to do that is to look within ourselves. Accountability has always been a hallmark of our profession, and we have moved quickly to implement internal reform. In an aggressive effort to help deter financial fraud, for example, the Institute has taken a number of effective actions with its Antifraud and Corporate Responsibility Program. The centerpiece of the program is a new audit standard, Statement on Auditing Standards No. 99, that puts forth new procedures that promise to change auditor performance substantially, improving the likelihood that auditors will detect material misstatements due to fraud.

In the area of corporate governance, the Institute has urged the SEC to go further than it has in reforming the way audit committees provide internal oversight. We've made our views clear that not only should chief financial officers of public companies be bound by a code of ethics, but so should directors, officers and employees.

You've heard from us before on the subject of strengthening the Institute's disciplinary procedures, and we will say it again: the AICPA is intolerant of members who break the rules. At its spring meeting, the AICPA Council approved three proposals to improve the timeliness and transparency of the Institute's disciplinary process. To date, members are voting on the two proposals requiring amendments to the AICPA bylaws. The first would allow the AICPA to sanction a member automatically if a designated regulatory authority, such as the SEC or PCAOB, has taken action against the member. To ensure due process, both the member and our Professional Ethics Executive Committee (PEEC) would have the opportunity to appeal the automatic sanction. The other proposal on which members are voting would expand transparency of the AICPA's disciplinary findings by allowing Council to authorize additional disclosures with regard to disciplinary actions and investigations. The third proposal, allowing the PEEC to admonish publicly any AICPA member who has violated the Institute's Code of Professional Conduct, became effective immediately upon Council's approval. Taken together, these enhancements augment the Institute's disciplinary process and continue to demonstrate that our members hold themselves to the highest professional standards.

We continue our work on other fronts as well. Long before it became a media issue, our Tax Executive Committee condemned abusive tax avoidance schemes. The AICPA has a clear position on abusive transactions — they should be eradicated. They insult honest taxpayers and their CPA advisers who strive every day to obey the increasingly complex tax laws. We are helping Congress and the IRS write rules and regulations to end them.

In our efforts to restore investor confidence in the capital markets, the Institute has launched the Special Committee on Enhanced Business Reporting. The committee's long-term focus is the development of a global consortium, designed to enhance the business reporting model, that will allow management and investors to make more knowledgeable decisions and will make use of such business advancements as eXtensible Business Reporting Language (XBRL). The Institute is committed to working with all stakeholders in the process to create a new reporting model built on reliable systems, the use of both financial and nonfinancial measures, a common method of disseminating information, corporate accountability and understandable disclosures.

We have made substantial progress in operations too. The new, computerized Uniform CPA Examination is well on its way to its April 2004 launch with the final paper-based exam scheduled for November 2003. We also moved forward with the Member Solutions Partnership (MSP), an initiative that will change the way we do business and provide service to our members. The overall goal for MSP is to create and upgrade business systems that will help us more effectively serve our collective AICPA and state society members. Moreover, despite significant unanticipated issues, costs and new programs, the AICPA operated on budget for the year. The operating losses of CPA2Biz, our marketing and technology provider, were reduced significantly while it expanded its customer base and improved overall services. In its third year of operation, CPA2Biz has a clear mission of providing marketing and technology services to the AICPA and helping CPAs build stronger relationships with their clients. Indications are that it is on track in achieving its service and operational goals.

As always, we are listening to our members, the 335,000 men and women who bring this profession to life. To this end, we continue our efforts to communicate more effectively, keeping you informed on important issues and ensuring your views are reflected in our volunteer leadership's decisions. We are making better use of electronic media, enabling us to deliver news and get feedback on a more timely and cost-effective basis. We are also examining our governance structure. Specifically, we have asked a volunteer task force of members, not currently in leadership roles, to look at how our governing Council is selected, evaluate the current ways Council members are apprised of issues affecting the profession and recommend improvements on representing and getting feedback from our members. Council will consider the task force's recommendations at its October 2003 meeting.

Probably the Institute's most important focus during the past year has been supporting the CPA profession itself. Like it or not, we have taken some powerful blows during the past two years. Many tough questions are being asked by regulators and the public about fundamental issues, including our standards, our training and our commitment. But no one is asking tougher questions than the members of our profession. During the year, the AICPA commissioned a study to determine the impact that corporate scandals have had on the public's trust in the services CPAs provide. Not surprisingly, the study revealed that recent events have affected the profession's reputation, but it also showed that CPAs continue to be held in high esteem, especially by their individual clients.

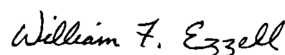
And new evidence shows we are making headway with our image. A recent Gallup poll found that Americans' opinion of the accounting profession has risen considerably in the past year — more than in any other profession or industry in the poll — with a positive rating jumping 14 points. In August 2002, 31% of the poll participants gave the profession positive marks. A year later, the profession's positive rating had increased dramatically to 45%, just two percentage points below the 47% rating received prior to Enron's collapse and other corporate scandals. Moving forward, the AICPA and state societies are tapping the strength of the frontline CPA to embark on a grassroots effort to reintroduce the profession to the public. The program will communicate a message of pride and value about the CPA profession.

As we embrace positive reforms, we shouldn't lose sight of the proud record of excellence that CPAs have had for more than 100 years. Although some skepticism is healthy, we should not allow it to turn into self doubt. We need to continue to be hard-line skeptics about our profession, while taking pride in it. We can stay in place, viewing what has happened negatively, or we can look forward and drive the restoration process. As a profession, we have chosen the latter. Across America, CPAs have been standing up for the profession, demonstrating their commitment to our core values, our reputation and our shared sense of purpose.

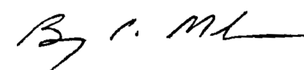
With that in mind, there are important lessons we need to learn as a result of recent events. We must make certain CPAs everywhere — including those yet to enter the profession — truly understand and live by the core values that make our profession great. This is how we will retain and reinforce the public's trust, our most valuable asset.

If there is a silver lining anywhere in the events of the past two years, it is in the validation of the essential role CPAs play in the capital markets and in our economy. Nothing has changed the fact that our clients and employers continue to rely on us to prepare their taxes, to audit their financial statements, to get sound, objective financial advice and to guide them in their day-to-day financial decisions. In fact, the increased visibility of the CPA's vital role in the U.S. economy, combined with our aggressive student recruitment campaign, is attracting a growing number of young people to the profession, reversing a disquieting trend of the 1990s.

Of course, these will continue to be challenging times for CPAs, but new challenges can be invigorating. Our profession is rising to the occasion by both championing and adjusting to change. This has been our mission for more than a century, and one we will continue to embrace. The past year has been about action and implementation, determination and moving forward. Our focus has been on execution and engagement, and in getting it right, right now. We will continue to challenge ourselves to make the changes necessary to restore confidence in the integrity of the financial reporting system and in our profession, of which we are both extraordinarily proud.



William F. Ezzell, CPA
Chairman



Barry C. Melancon, CPA
President & CEO

The Year In Review

- On July 30, 2002, President Bush signs into law the Sarbanes-Oxley Act of 2002, the most significant piece of legislation to affect the accounting profession since 1933. The new law creates a five-member Public Company Accounting Oversight Board (PCAOB) with the authority to establish and enforce auditing, attestation, quality control and ethics standards for auditors of public companies. It also has the authority to impose disciplinary and remedial sanctions against auditors of public companies for violations of the PCAOB's rules, securities laws, and auditing and accounting standards.

Standing Up for What We Stand For

- In his inaugural speech before fall Council, AICPA Chairman William F. Ezzell asks AICPA members to join together to restore the profession's credibility. "We must make sure CPAs everywhere — including those yet to enter our profession — truly understand and live by the core values that make us great," he says.

- On September 4, 2002, in an address sponsored by the Yale Graduate School of Management, AICPA President and CEO Barry C. Melancon calls upon the accounting profession to rejuvenate its culture and participate in restoring its reputation.

- The initiatives Melancon outlines in the Yale speech become the foundation of the AICPA's Antifraud and Corporate Responsibility Program. Each initiative underscores the profession's core values and represents an opportunity for the profession to take a leadership role in reforming the financial reporting system.

- The AICPA works actively to implement the reforms outlined by the Sarbanes-Oxley Act and keep members informed of regulatory changes. The Institute launches a special toll-free hotline for members to ask questions about the law's provisions and the impact on their firms or organizations. Additional resources for members include periodic Webcasts, conference sessions and a Web site at www.aicpa.org/sarbanes/index.asp providing background documents, guidance and updates on recent developments.

- In a comment letter to the PCAOB, Chairman Ezzell makes four specific suggestions, including the need for significant transparency and public participation in its standards-setting process. He also supports the creation of advisory groups with intimate knowledge of standards and recommends that the PCAOB clearly indicate that its rules apply only to registered public accounting firms in the audits of public companies.

- The AICPA submits comment letters on each of the SEC's proposals to implement sections of the Sarbanes-Oxley Act affecting the profession, and many of the Institute's concerns are addressed in several of the final rules. One letter, for example, urges the SEC to consider the impact that provisions such as restrictions on non-audit services and mandatory auditor rotation would have on smaller businesses and the CPAs serving them. The final rule includes a clarification that audit firms may continue to provide tax and other services to audit clients subject to audit committee pre-approval. It also includes an alternative to the partner rotation requirement for CPA firms with fewer than five SEC clients and fewer than 10 partners.

- Additional comment letters to the SEC focus on three key areas: internal control, the makeup of audit committees and a code of ethics. They recommend that not only should CEOs of public companies have a code of ethics, but also directors, officers and employees. In addition, the AICPA recommends that all members of corporate audit committees should have experience in financial matters and that the SEC should go further than its requirement that at least one member of a public company's audit committee be a financial specialist.

- While the AICPA and state CPA societies continue to actively support the reforms adopted by Congress and the SEC, they also work for a reasoned approach to reform, particularly focusing on overreaching measures that may not be appropriate or necessary for privately held companies or the CPAs serving them. As part of this effort, the AICPA Special Committee on State Regulation, headed by former AICPA Chairman Kathy Eddy, is charged with addressing state legislative or regulatory proposals that might extend the provisions of Sarbanes-Oxley to private businesses and their CPAs.

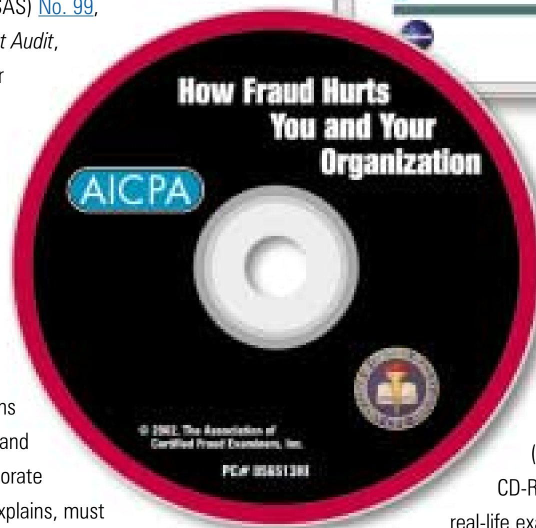
- To support this effort, the Institute launches a section on its Web site (www.aicpa.org/statelegis) where members and other interested parties can monitor developments at the state level. State CPA societies, working closely with the Special Committee on State Regulation, successfully turn back several state legislative and regulatory proposals that would inappropriately extend Sarbanes-Oxley provisions to nonpublic companies.

- The AICPA engages its membership, Council, committee members as well as the state CPA societies in a discussion of the issues of small firm services and standards for nonpublic companies. The feedback leads the AICPA Board of Directors to debate changing the Institute's Auditing Standards Board (ASB) to focus on private business, effective next year. In addition, the Institute creates a new position, Vice President of Small Firm Interests, to focus on the feedback and services of non-national firms.

- As the cornerstone of the AICPA's Antifraud and Corporate Responsibility Program, the Auditing Standards Board (ASB) issues a new audit standard, Statement on Auditing Standards (SAS) No. 99, *Consideration of Fraud in a Financial Statement Audit*, giving auditors considerably more guidance for detecting material fraud. It puts auditors on notice that they must approach every audit with professional skepticism.

- In an effort to work with corporate America to prevent fraud, the AICPA creates an exhibit attached to SAS No. 99, *Management Antifraud Programs and Controls: Guidance to Help Prevent and Deter Fraud,* that spells out specific recommendations to help boards of directors, audit committees and management prevent and root out fraud. Corporate antifraud programs and controls, the exhibit explains, must have three fundamental components: a culture of honesty and high ethics, antifraud processes and controls and an appropriate oversight process.

- The AICPA launches a new Antifraud and Corporate Responsibility Resource Center at www.aicpa.org/antifraud. It features free technical literature designed to support the CPA's perspective — whether an auditor, a consultant or a member in business and industry or government — within the engagement context, educational materials, training, news on recent developments and links to supporting products and services. The site's newest enhancement is a section for educators and students that provides instructors with materials, including case studies, to help bring fraud prevention, detection and related issues into the classroom, and that enables students to explore career possibilities and access educational resources.



- To help businesses prevent and detect fraud, the AICPA and the Association of Certified Fraud Examiners (ACFE) release a one-hour antifraud training program on CD-ROM, *How Fraud Hurts You and Your Organization.* It includes real-life examples of fraudulent activity and a checklist of warning signs. More than 80,000 CD-ROMs are distributed free of charge to CPA firms and businesses across the United States. Another 30,000 are sent overseas, spreading the AICPA's antifraud efforts across the globe.

- A new, eight-hour CPE course, *Fraud and the CPA*, also is developed by the AICPA and ACFE. The course highlights how CPAs can better assist corporate America in detecting and preventing all types of fraud.

- The AICPA business and industry team, with support from the AICPA Foundation, publishes a series of case studies on unethical and illegal accounting practices based on real-life experiences of members. The case studies include expert commentary offering alternatives on how to face unfamiliar situations. The case collection is available in the Antifraud and Corporate Responsibility Resource Center.

- The ASB submits for the PCAOB's consideration guidance to auditors as they report on the effectiveness of management's internal control over financial reporting. Such a report is mandated for public companies under Sarbanes-Oxley.

- The AICPA begins development of an Audit Committee Effectiveness Center (ACEC), the centerpiece of which is the Audit Committee Toolkit. The toolkit is a primer to help audit committee members, regardless of their financial sophistication, discharge their responsibilities. The ACEC, including the toolkit, is being launched in November 2003 to facilitate use by audit committees in the upcoming financial reporting season.

- As part of a comprehensive program to support and promote effective audit committees, the AICPA launches an Audit Committee Matching System (ACMS). By providing a list of qualified, credentialed candidates to serve on boards and their audit committees, the ACMS acts as both a public service and as a way to help CPAs learn about opportunities to serve. ACMS is featured in the Audit Committee Effectiveness Center.

- In December 2002, the AICPA's audit and attest standards team issues a toolkit to help auditors understand and apply statements on auditing standards when auditing fair value measurements and disclosures related to business combinations, goodwill and certain impairment situations. In January 2003, the ASB issues SAS No. 101, *Auditing Fair Value Measurements and Disclosures,* containing significantly expanded audit procedure guidance for fair value measurements and disclosures.

- Continuing its efforts to improve audit effectiveness and international convergence, the ASB, working with the International Audit and Assurance Standards Board, issues an exposure draft of seven proposed statements on auditing standards relating to the auditor's risk assessment process. Their primary objective is to require a more in-depth understanding of the entity being audited and a more rigorous assessment of the risks of material misstatement in the financial statements.

- The AICPA continues its work with the U.S. Department of Labor (DOL) to improve the quality of employee benefit plan audits subject to ERISA. These efforts include training courses and tools, enhancements to the Institute's practice monitoring programs, communications to members about audit quality issues and disciplinary actions against member firms performing substandard audits.

- The AICPA and the Financial Accounting Standards Board (FASB) agree that the Accounting Standards Executive Committee (AcSEC) will focus its efforts on industry specific accounting guidance through accounting and auditing guides to help financial statement preparers and CPAs in public accounting. AcSEC also will continue to advocate on behalf of AICPA members serving investors and the financial reporting community to ensure the FASB undertakes the necessary projects and efforts to improve financial reporting.

- The SEC Practice Section (SECPS) continues its public interest activities by responding to the SEC and PCAOB proposals on behalf of its member firms. While it is reviewing its structure to better meet the needs of members working in the changing public company environment, the SECPS continues many of its responsibilities unabated.

- The AICPA's Peer Review Board issues an exposure draft recommending enhancements to the peer review program for auditors of non-SEC entities. It proposes new responsibilities for peer reviewers and reviewed firms, more timely reviews and more transparent peer review reporting.

- In April 2003, the AICPA's governing Council votes in favor of three proposals to enhance the Institute's disciplinary process. The two requiring approval by membership ballot allow for automatic sanctioning (while retaining the right of appeal) of an AICPA member who is disciplined by an AICPA-approved governmental agency or organization authorized by law to regulate accountants and for more relevant disclosures about investigated matters. The third proposal, allowing the AICPA to publicly admonish any member who has violated the Institute's Code of Professional Conduct, takes effect immediately.

- AICPA Chairman Ezzell appoints a task force to evaluate how Council might more effectively represent the members, including the manner in which they are elected and appointed. The task force's mandate is to recommend changes it believes would better enhance the Council's process, communications and membership representation.

- A new member outreach program is launched to encourage dialogue with members and foster better understanding of the issues affecting the profession. The initiative includes visits to all 50 states by AICPA board members or senior staff and an e-mail outreach campaign. The Institute also improves communications to Council with video summaries following each Board of Directors meeting and conference call briefings. As evidence of their commitment to this endeavor, Chairman Ezzell and President and CEO Melancon visit more than 45 state societies.

- The AICPA commissions the national research firm, Penn, Schoen & Berland Associates, to determine whether the scandals of the past two years have changed the public's historical high regard for CPAs. While the survey of more than 1,000 business decision makers and investors reveals that the accounting scandals have affected the profession's reputation, it also shows that CPAs continue to be held in high esteem and affirms the overwhelming support and trust that individual clients have for their CPAs.

- In response to a large number of complaints by AICPA members and a pointed letter from AICPA President and CEO Barry Melancon, H&R Block pulls a television ad that many members consider disparaging to CPAs.

- The Institute, with insight from the state CPA societies, creates three new print and two radio ads to support members working in small- and medium-size businesses and firms. The ads demonstrate the value CPAs bring to their employers and clients, the public and the U.S. economy and leverage the profession's core values and the trust that exists between CPAs and their employers and clients.

- The Institute continues its successful media campaign to help rebuild the public trust in the services CPAs provide. AICPA leaders participate in more than 125 interviews with national newspapers such as *The New York Times, The Wall Street Journal* and *The Washington Post;* magazines such as *Fortune, Forbes* and *CFO;* and television and radio outlets such as CNN and National Public Radio. In addition, trade publications feature an additional 250 interviews in which AICPA leaders share the message that CPAs can be counted on for their integrity, are passionate about getting it right and intolerant of those who break the rules.

- To increase the financial literacy of America's youth, the AICPA Foundation provides funding for two new children's television shows to be broadcast on PBS YOU, a satellite affiliate of PBS. The programs, "Pennywise" and "Business Building Blocks," are aimed at increasing middle and high school students' awareness of personal finance and accounting.

- During the 2002 debate on pension reform, the AICPA recommends to Congress enhancing employee education and expanding investment choices for employees.

- In a letter to all AICPA members, Barry Melancon and Robert A. Zarzar, Chair of the AICPA's Tax Executive Committee, call for the eradication of abusive tax shelters, saying "They insult the large majority of honest taxpayers and their CPA advisers who strive every day to obey the increasingly complex tax laws." The Tax Executive Committee also shares with Congress specific, detailed recommendations to help combat inappropriate tax avoidance transactions.

- In congressional testimony, the AICPA recommends reforms to further modernize Subchapter S of the Internal Revenue Code. Robert A. Zarzar urges the House Ways and Means Subcommittee on Select Revenue Measures to craft legislation that would recognize and remove the anticompetitive limitations on the growth of existing S corporations. At the time of publication, a tax bill has been submitted to the House which, among other items, includes some of the Institute's recommendations for Subchapter S corporations.

- Responding to the Jobs and Growth Tax Relief Reconciliation Act of 2003 that President Bush signed into law, the AICPA outlines planning opportunities and pitfalls of the new tax act. The handy summary prepared by the AICPA tax team is intended to serve as a framework for learning key provisions of the law.

- The AICPA comments on a proposal requesting the Department of Labor to reform overtime rules for professionals working in CPA firms under the Fair Labor Standards Act. The letter asks that degreed accountants working in CPA firms be treated equally with other learned professionals.

- To improve the quality and transparency of information available to investors and other decision makers, the AICPA's Special Committee on Enhanced Business Reporting takes a leadership role in the development of a global consortium focused on enhancing the business reporting framework. This effort recognizes that today's business reporting, while a solid foundation from which to start, is incomplete due to rising marketplace demands for more relevant, up-to-the-minute information.

- Morgan Stanley, Microsoft and EDGAR Online are the first companies to report their financials in eXtensible Business Reporting Language (XBRL), a freely licensed, standards-based method of preparing, publishing, exchanging and analyzing financial data. To promote XBRL, the AICPA heads an international consortium of more than 200 multinational corporations and financial institutions, more than a dozen national accounting firms and the accounting institutes in 10 countries.

- The Federal Deposit Insurance Corporation (FDIC) announces that it will modernize its reporting system by implementing XBRL as one of its key technologies. A $39-million contract goes to Unisys Corp. and a number of XBRL-US members to use XBRL to overhaul the system that regulators use to collect, process and distribute bank Call Report data.

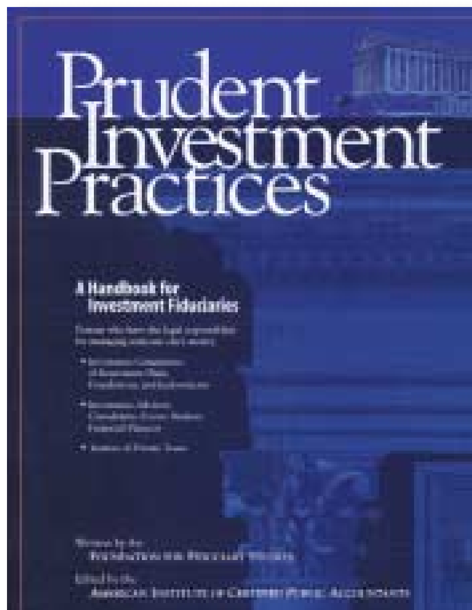
- A survey by XBRL-US with the support of the AICPA finds that more than two-thirds of accounting software vendors have either already XBRL-enabled at least one of their accounting software packages or will do so by December 2004. These software vendors, which include Oracle, Microsoft, Hyperion, SAP, PeopleSoft, ACCPAC, JD Edwards and Cartesis, believe the demand for XBRL functionality within accounting software is on the rise.

- In June 2003, the AICPA and the Canadian Institute of Chartered Accountants (CICA), with input from privacy experts, issue a *Privacy Framework* for public review and comment. This company-wide framework of best practices is broad enough so that a CPA versed in its details can implement a comprehensive privacy policy covering all of a company's operations, including those in different industries and across the globe.

- To improve the effectiveness of litigation services, the AICPA issues a special report entitled *Litigation Services and Applicable Professional Standards.* These comprehensive guidelines recognize that CPAs are involved in a wide variety of engagements in this area, including calculation of economic damages; valuations; fraud prevention, detection and investigation; tax analyses; bankruptcy analyses; and attestation services.

- With support provided by the AICPA Foundation, the AICPA and the National Endowment for Financial Education jointly develop a guide to help people affected by natural and manmade disasters recover from financial loss. Offered free of charge by local American Red Cross chapters, it is the first comprehensive, easy-to-understand resource to guide people through the three key stages of disaster recovery: the days immediately after a disaster, the months following and the long-term future. Already, more than 83,000 copies are in the hands of disaster victims.

- January 13 – 17, 2003, is the second Women's Financial Health Week co-sponsored by the AICPA and *Money* magazine. Thirteen thousand women visit the official Web site, www.womensfinancialhealthweek.com, an increase of 36% over the previous year. Women across the country chat online with a MONEY magazine senior editor and a group of CPA Personal Financial Specialists. They also take the site's financial comfort quiz, resulting in personalized recommendations to help them strengthen their budgeting skills. Coverage in print, television, radio and online media reaches more than 80 million consumers.



- The AICPA provides technical review for a new comprehensive handbook written by the Foundation for Fiduciary Studies. *Prudent Investment Practices: A Handbook for Investment Fiduciaries* serves as a reference guide for knowledgeable investment decision makers — such as CPA financial planners and CPAs serving in business and industry as trustees and members of investment committees — and covers 27 practices culled from federal and state legislation, regulatory opinion letters and relevant case law.

- At the direction of Council, the AICPA explores a number of options to enhance the Institute's existing specialty credentials, including establishing new relationships with strategic partners. Through a number of feedback mechanisms, including online surveys and town hall teleconferences, Personal Financial Specialist (PFS), Accredited in Business Valuation (ABV) and Certified Information Technology Professional (CITP) credential holders have indicated that they care deeply about the future of their credentials and that the credentials play an important role in their professional activities. At the writing of this Annual Report, additional feedback was being sought through a special Invitation to Comment for each credential program, with Council scheduled to decide future direction in October 2003.

- To allow CPAs to determine how well their overall skills and proficiencies compare to composite profiles, the AICPA introduces the Competency Self-Assessment Tool. After completing an online questionnaire, a report is generated showing the CPA's strengths and development needs, along with suggested learning opportunities to close the skills gap. The tool includes a variety of competency models, including business and industry, audit, government and fraud prevention, detection and investigation. Additional models will continually be introduced to demonstrate the different ways CPAs practice the profession.

- To allow for greater member involvement and the solicitation of a wide range of member views, the AICPA's Group of 100 is becoming the Virtual Grassroots Panel. The new group will be composed of approximately 500 members from all segments of the profession and operate in an entirely electronic environment providing members with the opportunity to quickly and frequently offer their views on a range of issues.

- The AICPA Board of Directors approves a strategy for international activities that significantly enhances the AICPA's role in the development of international accounting, auditing, assurance and ethical standards.

- Established in July 2002 by the AICPA and 17 other accountancy institutes around the world, the International Innovation Network (IIN) continues to provide leadership in developing and sharing ideas for products and services for the benefit of the global accounting profession. This collaborative effort has helped the AICPA license Trust Services and other products into the IIN, making them available to one million professional accountants worldwide. Many other IIN members are offering their products and services to the IIN for licensing by its members.

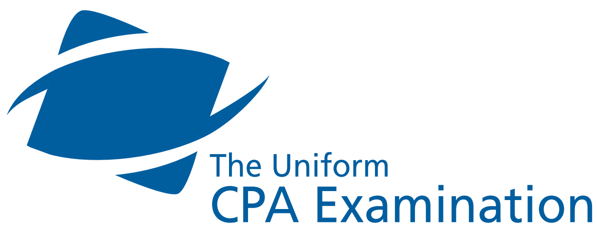
- In order to better understand members' needs and to design products and services that reflect their interests and current professional activities, a Member Solutions Partnership (MSP) is launched. Its purpose is to design and deploy a state-of-the-art membership management and operations system to be implemented in fall 2003. The MSP is a collaborative effort between the AICPA and the state societies through the Shared Services, LLC joint venture.

- CPA2Biz, the AICPA's marketing and technology provider, makes significant strides. Online sales continue to grow by 50%, the user base is now over 150,000, and the site has an industry-leading search engine. In a third-party survey of users, 93% say they would recommend the site to a colleague and rate the site as either excellent or satisfactory. CPA2Biz also introduces the AICPA Business Solutions Program, which enables CPAs to build stronger relationships with their clients through services such as payroll. In addition, CPA2Biz reduces its operating loss by 90%.

AICPA InfoBytes

- *AICPA InfoBytes*, the popular AICPA online learning library, is selected by *Accounting Today* as a Top 100 Product for 2003. *Accounting Today* states that "the online learning library for accounting and financial professionals consists of hundreds of one- to three-credit CPE courses. Authored by leading authorities, courses include expert guidance on a wide variety of topics in accounting, auditing, consulting, management and taxation."

- More than 16,000 CPAs attend AICPA conferences during 2003, up from nearly 13,000 in 2002.



- Throughout the year, AICPA project teams work to complete the new technology-driven Uniform CPA Examination. The final paper-based version of the exam is scheduled for November 2003. Beginning in April 2004, a computer-based CPA Examination will be offered up to six days a week during two out of every three months throughout the year. The computer-based test, which has been a cooperative effort of the AICPA and the National Association of State Boards of Accountancy, broadens the scope of the audit and attest areas, incorporates the assessment of critical skills such as research and communication and increases emphasis on general business knowledge and information technology.

- Now in its second full year, the AICPA's five-year student recruitment effort has had substantial success in generating awareness of, involvement with, and interest in the CPA profession among college and high school students. The campaign, Start Here, Go Places., developed by Wunderman, a division of Young & Rubicam, has generated more than 400,000 responders to its integrated, multimedia program. Of those, more than 80,000, divided about equally between high school and college students, have expressed an interest in a continuing dialogue with the profession. Most of these represent students who have not previously been attracted to the CPA profession, and the numbers continue to grow.

Financial Statements

Sources and Occupations of AICPA Membership

	1989	1991	1993	1995	1997	1999	2001	2003
Total AICPA Membership (excluding student and other affiliates)	286,358	301,410	314,427	323,779	329,019	336,635	336,081	335,111
Public Accounting	45.8%	43.2%	42.2%	40.7%	39.6%	39.5%	38.9%	38.4%
Business & Industry	39.9%	40.7%	40.3%	41.7%	43.1%	46.2%	46.6%	47.4%
Education	2.7%	2.8%	2.3%	2.4%	2.4%	2.4%	2.3%	2.4%
Government	3.7%	3.9%	4.3%	4.4%	4.4%	4.3%	4.1%	4.1%
Retired & Miscellaneous	7.9%	9.4%	10.9%	10.8%	10.5%	7.6%	8.1%	7.7%
Membership in Public Practice	131,014	130,078	132,821	131,887	130,439	133,036	130,870	128,730
Firms with one member	23.8%	24.1%	23.2%	23.2%	23.1%	22.8%	21.6%	21.4%
Firms with 2–9 members	33.8%	35.2%	35.8%	36.5%	36.2%	34.7%	34.1%	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%	24.5%
25 largest firms	25.1%	21.9%	21.0%	19.9%	19.7%	20.9%	21.5%	20.0%

Management's Discussion and Analysis

Fiscal 2003 was a year of change for all of corporate America as well as the CPA profession. During the year, the AICPA worked diligently to advocate for reforms to help our members and the federal government implement the Sarbanes-Oxley Act and to carry out programs to rebuild investor confidence. The AICPA also continued to make strategic investments in the future of the profession, including the development of a computerized CPA Exam and a new membership management and operations system, as well as the continuation of its five-year student recruitment program targeted at attracting the best and brightest students into the profession.

The AICPA launched a multi-faceted Antifraud and Corporate Responsibility Program focused on auditors, audit committees and corporate America in general. This included development of a new audit standard, Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit,* the launching of a new Antifraud and Corporate Responsibility Resource Center, a free one-hour training program in cooperation with the Association of Certified Fraud Examiners, and a new eight-hour fraud course for CPAs. The AICPA also developed and launched a new Audit Committee Effectiveness Center as part of a comprehensive program to support and promote effective audit committees.

During the year, the AICPA in cooperation with the National Association of State Boards of Accountancy and Prometric, Inc., continued the development of the computerized Uniform CPA Examination. The examination development is on schedule for its pilot testing this fall and launch in April 2004 and is within the parameters of its $20 million development budget. $16.5 million of the $20 million development budget has been incurred through July 31, 2003, and is carried as an asset. $3.5 million of research and development-related costs, which are not a component of the development budget, were incurred and expensed in prior years. Prometric, Inc. has provided the AICPA an interest-free line of credit up to $10 million to facilitate the conversion of the CPA Exam from a paper-based to a computer-based format with repayment from future Uniform CPA Examination revenue. As of July 31, 2003, the AICPA has borrowed $7 million under this line of credit. An extensive communications and marketing plan has been undertaken to build awareness among students, employers, academia and exam course providers regarding this new and exciting exam format.

To enhance our communication and service as well as better understand members' needs in order to design products and services that reflect their interests and current professional activities, a Member Solutions Partnership (MSP) was launched. Its purpose is to design and deploy a state-of-the art membership management and operations system. The MSP is a collaborative effort between the AICPA and state societies through the Shared Services LLC joint venture. The external development budget for the project is $10.2 million and $5.8 million has been incurred through July 31, 2003; $5.5 million has been capitalized and $0.3 million has been expensed. The system, which is on budget, is expected to go live in Fiscal 2004 with two pilot states and the AICPA. Based on interest expressed to date and SSLLC's capacity, approximately three to five states will be added to this system per quarter on a subscription basis until all interested states have been added.

In Fiscal 2003, the AICPA had an excess of revenue over expenses of $1.4 million, as compared to a break-even budget, after accounting for the AICPA's equity interest in Shared Services, LLC and 100% ownership of NorthStar Conferences, LLC ("NorthStar"). In addition, cash flow provided by operating activities on a stand-alone basis was $10.6 million in 2003 versus $4.9 million in 2002. AICPA management and member volunteers worked diligently throughout the year to control and reduce expenses and redeploy available resources in this dynamic and changing environment resulting from the enactment of the Sarbanes-Oxley Act and the formation of the Public Company Accounting Oversight Board. Realized and unrealized gains on marketable securities totaled $2.8 million for the year versus a budgeted gain of $0.5 million.

As of July 31, 2003, the AICPA recorded a minimum pension liability of $3.1 million as required by Statement of Financial Accounting Standards No. 87, *Employer's Accounting for Pensions.* The minimum pension liability adjustment is reflected as an intangible asset of $1.3 million in the statement of financial position and as an increase in pension expense of $1.8 million in the statement of activities. The increase in the unfunded accumulated benefit obligation was attributable to a reduction in the assumed discount rate from 7.0% to 6.25% as well as the actual returns on plan assets during the past three years. A 25-basis point increase in the assumed discount rate would have decreased the projected benefit obligation by $2.6 million and eliminated the $1.8 million in additional expense that was recorded. The AICPA has not been required to make nor has it made contributions to the plan in 17 years. However, to satisfy pension commitments and assure the plan's future liquidity, the AICPA anticipates funding the plan in 2004 and future years at the current expense level or the ERISA minimum, if greater, and effective with the plan year 2004 is implementing Board approved changes in the pension plan design.

The consolidated financial statements of the AICPA include CPA2Biz assets, liabilities and operations. While CPA2Biz has sustained substantial losses in its first two and one-half years of operations, management has implemented changes in business approaches and cost cutting that result in a projected break-even cash flow for the coming year. While CPA2Biz's losses reflect negatively on the consolidated operations of the AICPA and its statement of financial position, the AICPA, as a stand-alone entity, is not liable for any CPA2Biz obligations and has performed at a level of revenue and expenses approximating its budget. If CPA2Biz were no longer consolidated in the AICPA's financial statements due to the AICPA's voting control falling below 50% or CPA2Biz ceasing operation, the effect would be a reversal of approximately $83 million in previously recorded losses.

In Fiscal 2003, operating expenses on a combined basis [AICPA, CPA2Biz, NorthStar and the related organizations (the "Institute")] exceeded operating revenue by approximately $7.1 million, as compared to $38 million in Fiscal 2002, before discontinued operations, minority interest and net gains on marketable securities. Also on a combined basis, the Institute experienced a net gain on marketable securities of approximately $3.1 million for Fiscal 2003, compared to a loss of $7.9 million in Fiscal 2002, due to the favorable capital markets.

In October 2002, CPA2Biz completed the sale of Capital Professional Advisors, Inc. ("CapPro") to an investor holding CPA2Biz common stock and Series A Preferred Stock. The Purchaser exchanged all of their CPA2Biz equity instruments in exchange for the common stock that CPA2Biz held in CapPro. The financial statements are presented to reflect CapPro as a discontinued operation for all periods. The loss from the discontinued operations was $0.7 million and $3.1 million in 2003 and 2002, respectively. The current year loss is offset by a gain on the disposal of $6.3 million.

Operating revenue on a combined basis was $164.9 million in 2003 compared to $161.8 in 2002, an increase of $3.1 million or 1.9%. This increase is due primarily to higher paper-based CPA Examination and professional development revenue offset by lower sales of publications and software. In February 2002, the AICPA acquired 100% of NorthStar as part of a strategic initiative to broaden the education provided to members, particularly those in business and industry. Conference revenue attributable to NorthStar activities also contributed to the increase.

Operating expenses on a combined basis were $172 million in 2003 compared to $199.7 in 2002, a decrease of $27.7 million or 13.9%. The decrease is due predominately to lower CPA2Biz expenses as a result of changes in its business practices, and lower Enron and Sarbanes-Oxley related costs in the current year offset, in part, by higher product and defined benefit plan costs.

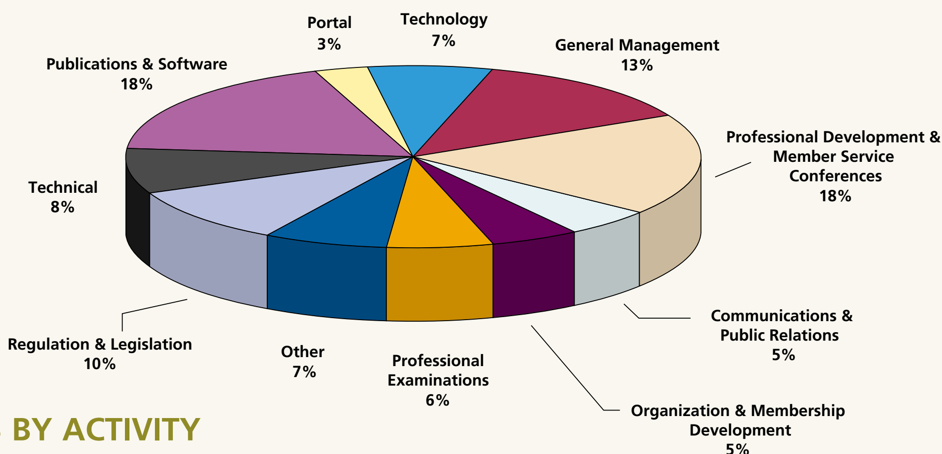
Cash flow provided by operating activities on a combined basis was $5.3 million in 2003 compared to cash used in operations of $22 million in 2002 primarily due to lower CPA2Biz related costs. *Cash used in investing activities* was $19.7 million in 2003 due primarily to the CPA Exam and MSP projects. *Cash provided by financing activities* totaled $8.1 million in 2003 due primarily to proceeds from long-term debt to fund the development of the computerized exam. Net cash decreased in 2003 by $6.3 million due primarily to the MSP investment.

CPA2Biz sustained significant losses during its first two and one-half years of operations. In late 2002, a new management team restructured CPA2Biz's revenue model and realigned its business plan. In 2003, CPA2Biz's net loss was reduced 90.5%, from $33.8 million in 2002 to $3.2 million in 2003. CPA2Biz completed several initiatives intended to improve its liquidity and better position itself under current market conditions. Among these initiatives was a renegotiated agreement with the AICPA that became effective as of July 1, 2002; the restructuring of operations and cost-cutting programs; and renewed focus on selling core products being offered to AICPA members. CPA2Biz also formed new strategic commercial relationships with third parties, negotiated with creditors to reduce future obligations, and completed the sale of CapPro, so that no material future payments are required during Fiscal 2004.

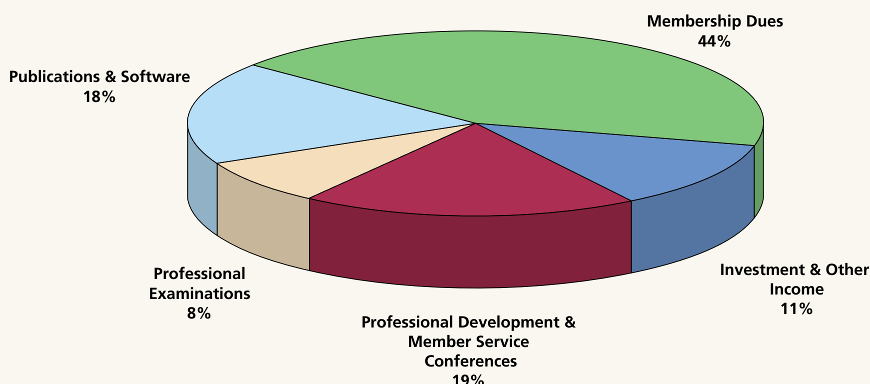
At July 31, 2003, the AICPA and related organizations have a strong financial position with excellent liquidity. The current liquidity along with the anticipated break-even budget for 2004 should be sufficient to finance planned operations other than CPA2Biz activities. CPA2Biz in turn, believes its cash balance and 2004 cash flow will also be sufficient to fund its operations. If CPA2Biz's 2004 financial results do not meet or exceed its projected break-even cash flow, management believes that they have contingency plans to mitigate decreases in revenue through reductions in expenses.

An adequate fund balance is necessary for investment in the profession and our services to members, and if necessary, for weathering difficult times that may be encountered. As of July 31, 2003, the AICPA's net assets to annual net revenue ratio is 18.6%. This ratio is slightly below the targeted goal of 20-25% due to a planned multi-year, multi-million dollar investment in the student recruitment campaign that began in the summer of 2001, and the challenging capital markets of the past four years. The investment portfolios are managed by experienced investment advisers and are well positioned and diversified to rebuild as the capital markets improve. It is the goal of the Board of Directors and senior management to maintain and increase the fund balance over the next several years through continued sound fiscal management and investment performance in order to position the AICPA to continuously service its members and the public should unforeseen circumstances occur.

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.

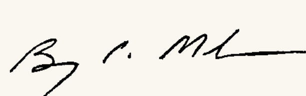
Established policies are communicated throughout the Institute and enhanced through the careful selection, training and development of its staff. Internal auditors monitor the operation of internal control and report findings and recommendations to management and the Board of Directors. Corrective actions 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, 2003, 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

ets Audit Attest Competence Insight Reform Antifraud Corporate Responsibility Transparency Timeliness Tax Laws Accountability Principles
ivity Enhanced Financial Reporting Capital Markets Audit Attest Competence Insight Reform Antifraud Corporate Responsibility Transparency
usiness Public Companies Trust Solutions Objectivity Enhanced Financial Reporting Capital Markets Audit Attest Competence Insight Reform
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Reports of Independent Public Accountants

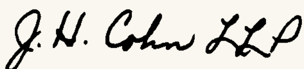
To the Members of the American Institute of Certified Public Accountants

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, 2003, 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, 2003, 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.



Roseland, New Jersey
September 17, 2003

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, 2003 and 2002, 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, 2003 and 2002, 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.

Roseland, New Jersey
September 17, 2003

Financial Statements
July 31, 2003 and 2002

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND RELATED ORGANIZATIONS

COMBINED STATEMENTS OF FINANCIAL POSITION
JULY 31,

	2003	2002
	($000)	
ASSETS:		
Cash	**$ 4,993**	$ 11,335
Marketable securities	**85,056**	83,008
Accounts and notes receivable (less an allowance for doubtful accounts: 2003, $1,308,000; 2002, $2,216,000)	**11,595**	14,976
Inventories	**797**	986
Deferred costs and prepaid expenses	**37,754**	26,086
Goodwill and other intangible assets	**20,576**	25,115
Furniture, technology and leasehold improvements, net	**10,518**	15,769
Totals	**$171,289**	$177,275
LIABILITIES:		
Accounts payable and other liabilities	**$ 40,912**	$ 40,733
Advance dues	**42,371**	40,275
Unearned revenue	**13,549**	18,256
Long-term debt	**12,858**	7,800
Deferred rent	**13,534**	14,914
Deferred employee benefits	**21,470**	16,713
Total liabilities	**144,694**	138,691
PREFERRED STOCK AND NET ASSETS:		
Preferred stock of C2B	**80,916**	87,074
Net assets:		
Unrestricted:		
AICPA and Related Organizations	**35,276**	31,582
C2B	**(90,245)**	(80,720)
Total unrestricted	**(54,969)**	(49,138)
Permanently restricted	**648**	648
Total net assets	**(54,321)**	(48,490)
Total preferred stock and net assets	**26,595**	38,584
Totals	**$171,289**	$177,275

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

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND RELATED ORGANIZATIONS

COMBINED STATEMENTS OF ACTIVITIES
YEAR ENDED JULY 31,

CHANGES IN UNRESTRICTED NET ASSETS:

	2003	2002
	($000)	
Operating revenue:		
Dues	**$ 72,582**	$ 72,923
Publications and software	**29,550**	33,281
Professional development and member service conferences	**30,927**	25,582
Investment and sundry income	**16,992**	17,623
Professional examinations	**12,777**	10,842
Contributions	**2,050**	1,504
Total operating revenue	**164,878**	161,755
Operating expenses:		
Program services:		
Publications and software produced for sale	**24,749**	21,420
Professional development and member service conferences	**31,543**	28,497
Member services:		
Regulation and legislation	**17,606**	27,238
Technical	**14,038**	13,650
Publications	**5,460**	6,090
Other	**8,493**	11,617
Professional examinations	**9,804**	10,062
Communications and public relations	**9,018**	10,434
Support and scholarships	**3,041**	6,336
Assistance programs	**805**	862
Supporting activities:		
General management	**22,886**	35,839
Organization and membership development	**8,134**	7,369
Technology	**11,371**	14,374
C2B technology development	**5,058**	5,940
Total operating expenses	**172,006**	199,728
Deficiency of operating revenue over expenses	**(7,128)**	(37,973)
Discontinued operations	**5,602**	(3,057)
Gains (losses) on marketable securities:		
Realized	**(1,664)**	(107)
Unrealized	**4,799**	(7,817)
Totals	**3,135**	(7,924)
Change in unrestricted net assets before minority interest	**1,609**	(48,954)
Minority interest, inclusive of preferred stock dividends	**(7,440)**	(3,203)
Change in unrestricted net assets	**(5,831)**	(52,157)
Unrestricted net assets, beginning of year	**(49,138)**	3,019
Unrestricted net assets, end of year	**$ (54,969)**	$ (49,138)

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

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND RELATED ORGANIZATIONS

COMBINED STATEMENTS OF PREFERRED STOCK AND NET ASSETS JULY 31,

	($000)		
	AICPA and Related Organizations	C2B	TOTAL
2003:			
Preferred stock		$ 80,916	$ 80,916
Net assets:			
Unrestricted	$35,276	(90,245)	(54,969)
Permanently restricted	648		648
Total net assets	35,924	(90,245)	(54,321)
Totals	$35,924	$ (9,329)	$ 26,595
2002:			
Preferred stock		$ 87,074	$ 87,074
Net assets:			
Unrestricted	$31,582	(80,720)	(49,138)
Permanently restricted	648		648
Total net assets	32,230	(80,720)	(48,490)
Totals	$32,230	$ 6,354	$ 38,584

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

ets Audit Attest Competence Insight Reform Antifraud Corporate Responsibility Transparency Timeliness Tax Laws Accountability Principles
ivity Enhanced Financial Reporting Capital Markets Audit Attest Competence Insight Reform Antifraud Corporate Responsibility Transparency
usiness Public Companies Trust Solutions Objectivity Enhanced Financial Reporting Capital Markets Audit Attest Competence Insight Reform
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	2003	2002
	($000)	
INCREASE (DECREASE) IN CASH:		
Operating activities:		
Cash received from members and customers	**$162,520**	$172,097
Interest and dividends received	**2,358**	2,997
Cash paid to suppliers, employees and others	**(158,743)**	(196,443)
Interest paid	**(249)**	(254)
Income taxes paid	**(535)**	(432)
Net cash provided by (used in) operating activities	**5,351**	(22,035)
Investing activities:		
Payments for purchase of amortizable assets	**(18,424)**	(12,467)
Payments for purchase of furniture and technology	**(762)**	(1,773)
Payments for purchase of marketable securities	**(42,370)**	(70,478)
Investment in and advances to SSLLC	**(300)**	
Cash retained by CapPro upon disposition	**(1,346)**	
Proceeds from sale of marketable securities	**43,457**	77,792
Net cash acquired in connection with business acquisitions		2,900
Net cash used in investing activities	**(19,745)**	(4,026)
Financing activities:		
Proceeds of long-term debt	**8,491**	
Repayment of long-term debt	**(433)**	(3,600)
Proceeds from sale of common stock and options		35
Purchase of treasury stock	**(6)**	
Proceeds from sale of preferred stock		17,499
Net cash provided by financing activities	**8,052**	13,934
Net decrease in cash	**(6,342)**	(12,127)
Cash, beginning of year	**11,335**	23,462
Cash, end of year	**$ 4,993**	$ 11,335

RECONCILIATION OF CHANGE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:

	2003	2002
Change in unrestricted net assets	**$ (5,831)**	$ (52,157)
Adjustments to reconcile change in unrestricted net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	**12,373**	11,389
Loss on sale of marketable securities	**1,664**	107
Amortization of unearned revenue	**(532)**	(1,211)
Gain on sale of CapPro	**(6,329)**	
Unrealized (gain) loss on marketable securities	**(4,799)**	7,817
Minority interest	**7,440**	3,203
Noncash compensation	**11**	745
Equity in and write-down of investment in SSLLC	**300**	336
Donated securities		(256)
Provision for:		
Losses on accounts and notes receivable	**723**	503
Obsolete inventories	**217**	842
Purchase commitment	**(125)**	3,000
Deferred rent	**(1,380)**	(180)
Deferred employee benefits	**3,980**	1,048
Changes in operating assets and liabilities:		
Accounts and notes receivable	**1,735**	(1,961)
Inventories	**(28)**	(623)
Deferred costs and prepaid expenses	**645**	(1,635)
Accounts payable and other liabilities	**(2,945)**	1,537
Advance dues	**2,096**	5,250
Unearned revenue	**(3,328)**	879
Deferred employee benefits	**(536)**	(668)
Total adjustments	**11,182**	30,122
Net cash provided by (used in) operating activities	**$ 5,351**	$ (22,035)

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

Notes to Combined Financial Statements July 31, 2003 and 2002

1. ORGANIZATION

The financial statements include the accounts of the American Institute of Certified Public Accountants ("AICPA"), its for-profit subsidiaries, CPA2Biz, Inc. ("C2B") and NorthStar Conferences LLC ("NorthStar"), (collectively "AICPA and Subsidiaries"), and the following related organizations: the Division for CPA Firms ("Division"); the Accounting Research Association, Inc. ("ARA"); the AICPA Benevolent Fund, Inc. ("Benevolent Fund"); and the American Institute of Certified Public Accountants Foundation ("Foundation"), which have been combined in accordance with Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations* (SOP 94-3). As used herein, the "Institute" includes the AICPA and Subsidiaries 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. Through June 30, 2002, C2B was the sales, marketing and distribution subsidiary for AICPA products and other member services. The AICPA renegotiated its contract with C2B effective July 2002 to make C2B the exclusive online and offline marketing agent for certain products and services of the AICPA and for maintaining the official Web site for the sale of AICPA products (see Note 12). NorthStar provides professional development programs and conferences for various industries (see Note 3). The Division, consisting of both the PCPS/Partnering for CPA Practice Success, the AICPA Alliance for CPA Firms ("PCPS") and the SEC Practice Section ("SECPS"), strives to improve the quality of accounting and auditing services by CPA firms through a variety of self-regulatory and practice-oriented programs. The ARA provides funds for studies and research in regard to principles and standards of the accounting profession (see Note 11). The Benevolent Fund provides financial assistance to needy members of the AICPA and their families. The Foundation advances the profession of accountancy and develops and improves accountancy education by providing funds for a number of educational activities in the accountancy field, including minority initiatives.

The AICPA and State Societies Network, Inc. are equal percentage members of Shared Services, LLC ("SSLLC"), a limited liability company, organized for the purpose of managing shared services between the AICPA and participating state societies (see Note 13).

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. Donated marketable securities are recorded as contributions at their estimated fair values on the date of donation.

A large number of people have contributed significant amounts of time to the activities of the Institute. The financial statements do not reflect the value of these contributed services because they do not meet the recognition criteria of Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made* (SFAS No. 116).

Financial statement presentation follows the recommendations of Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations* (SFAS No. 117). Under SFAS No. 117, an organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Financial instruments, which potentially subject the Institute to concentrations of credit risk, include temporary cash investments, marketable debt securities and trade receivables. The Institute places its temporary cash investments with creditworthy, high-quality financial institutions. The Institute holds bonds and notes issued by the United States government and financially strong corporations. By policy, these investments are kept within limits designed to prevent risks caused by concentration. Credit risk with respect to trade receivables is also limited because the Institute deals with a large number of customers in a wide geographic area. The Institute closely monitors the extension of credit to its customers while maintaining allowances for potential credit losses. On a periodic basis, the Institute evaluates its trade receivables and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit considerations. Consequently, as of July 31, 2003, 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 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 publications and software, professional development and member service conferences and professional examinations is recognized when goods are shipped to customers or services are rendered.

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

Revenue related to affinity contracts is recognized when earned.

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 $12,884,000 and $10,704,000 for the years ended July 31, 2003 and 2002.

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* (SOP 98-1). 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 their servers are expensed over the period of benefit.

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

Capitalized internal use Web site development costs are amortized on the straight-line method over its estimated useful life of three years and begins when all substantial testing of the Web site is completed and the Web site is ready for its intended use.

The AICPA accounts for other computer software developed for internal use in accordance with SOP 98-1. All costs in the preliminary project stage are expensed as incurred. Internal and external costs, excluding general and administrative costs, incurred during the application development stage are capitalized. Upgrades and enhancements that result in additional functionality to existing software, which enable it to perform tasks that it was previously incapable of performing, are also capitalized.

Certain external and internal costs related to the development of the computerization of the Uniform CPA Examination are being deferred until the launch of the examination. Included in deferred costs and prepaid expenses at July 31, 2003 is approximately $16,461,000 of related deferred costs. Other costs related to the computerization of the Uniform CPA Examination are expensed as incurred. Such costs amounted to $274,000 for the year ended July 31, 2002 (see Note 9).

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business acquisitions accounted for under the purchase accounting method. Other intangibles include identifiable intangible assets purchased by C2B, primarily in connection with business acquisitions. Intangibles with a definite life are presented net of related accumulated amortization and impairment charges and are being amortized over five years. Goodwill and indefinite-lived intangibles are accounted for under a nonamortization approach and are evaluated annually for impairment.

The Institute records impairment losses on goodwill and other intangible assets when events and circumstances indicate that such assets might be impaired and the estimated fair value of the asset is less than its recorded amount. Conditions that would necessitate an impairment assessment include material adverse changes in operations; significant adverse differences in actual results in comparison with initial valuation forecasts prepared at the time of acquisition; a decision to abandon acquired products, services or technologies; or other significant adverse changes that would indicate the carrying amount of the recorded asset might not be recoverable.

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 and NorthStar are organized as for-profit entities. NorthStar, however, is organized as a single member LLC.

As a single member LLC, any taxable income or loss of the LLC is passed on to the member and taxable in accordance with the member's tax status. Accordingly, NorthStar's unrelated business income will be incorporated into the unrelated business income of the AICPA.

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.

Prior to the year ended July 31, 2003, C2B accounted for stock-based employee compensation arrangements under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), and related interpretations. Compensation expense for stock options was only reflected in net loss for the year ended July 31, 2002 to the extent that amortization of deferred compensation for options granted to employees

with an exercise price below the fair market value of the underlying common stock on the measurement date as defined in APB No. 25. Effective August 1, 2002, C2B adopted the preferable fair value recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123). C2B selected the modified prospective method of adoption described in Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure* (SFAS No. 148). Compensation cost recognized in the current year is the same as that which would have been recognized had the fair value method of SFAS No. 123 been applied from its original effective date. In accordance with the modified prospective method of adoption, results for prior years have not been restated.

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 2002 financial statements have been reclassified to conform with the current year's presentation.

3. ACQUISITION

In February 2002, the AICPA acquired certain assets and assumed certain liabilities of EEI Training LLC, a provider of professional development programs and conferences for various industries which employ AICPA members. Shortly after the acquisition, the name was changed to NorthStar Conferences LLC. During the year ended July 31, 2002, the AICPA recorded the purchase price of $629,000, which consisted of cash of approximately $369,000 and approximately $260,000 of direct acquisition costs. A summary of the original allocation of the purchase price is as follows:

	($000)
Net liabilities assumed	$ (223)
Goodwill	852
	$ 629

During the year ended July 31, 2003, the AICPA incurred approximately $70,000 in additional costs related to a settlement with the seller which resulted in additional goodwill of approximately $29,000.

4. MARKETABLE SECURITIES

Marketable securities consist of:

	2003	($000)	2002
U.S. Treasury obligations	**$14,382**		$20,191
Bonds and notes	**28,471**		28,638
Equities	**42,203**		34,179
Total fair value	**85,056**		83,008
Unrealized losses	**(1,112)**		(5,912)
Total cost	**$86,168**		$88,920

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

Investment income consists of:

	2003	($000)	2002
Dividends and interest	**$ 2,378**		$ 2,997
Realized losses	**(1,664)**		(107)
Unrealized gains (losses)	**4,799**		(7,817)
	$ 5,513		$ (4,927)

5. INVENTORIES

Inventories consist of:

	2003	($000)	2002
Paper and material stock	**$ 82**		$ 112
Publications in process	**182**		177
Printed publications and course material	**533**		697
	$ 797		$ 986

6. FURNITURE, TECHNOLOGY AND LEASEHOLD IMPROVEMENTS

Furniture, technology and leasehold improvements consist of:

	2003	($000)	2002
Furniture	**$ 7,931**		$ 8,007
Technology	**30,864**		30,907
Leasehold improvements	**15,790**		15,655
	54,585		54,569
Less accumulated depreciation and amortization	**44,067**		38,800
	$10,518		$15,769

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets are as follows:

	2003	($000)	2002
Goodwill	**$13,434**		$18,204
Trade name	**1,783**		1,783
Unrecognized prior service costs (Note 10)	**1,313**		
Contracts and technology	**5,645**		5,645
Less accumulated amortization	**1,599**		517
Contracts and technology, net	**4,046**		5,128
	$20,576		$25,115

Amortization expense on intangible assets with definite lives amounted to approximately $1,082,000 and $517,000 for the years ended July 31, 2003 and 2002. Estimated amortization expense in each of the years subsequent to July 31, 2003 is approximately $1,129,000 annually through 2006 and $659,000 in 2007.

The changes in the carrying amount of goodwill for the year ended July 31, 2003 are as follows:

	($000)
Balance, August 1, 2002	$18,204
Goodwill acquired (Note 3)	29
Goodwill written-off related to sale of Capital Professional Advisors, Inc. (Note 12)	(4,799)
	$13,434

The Institute performs an annual impairment test of goodwill and other intangible assets in the fourth quarter of each year. Fair value is estimated using the expected present value of future cash flows.

8. LONG-TERM DEBT

Long-term debt consists of the following:

	2003	2002
	($000)	
AICPA (A)	**$ 1,200**	$ 1,200
AICPA (B)	**7,000**	
AICPA (C)	**1,118**	
C2B (D)	**3,540**	3,600
Acquired entities (E)		3,000
	$12,858	$ 7,800

(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 $688,000.

(B) Noninterest bearing note payable to Prometric, Inc. ("Prometric" — see Note 9).

(C) The unsecured note is payable in quarterly installments of approximately $194,000 including interest at 4.84% through January 2005.

(D) The unsecured note bore interest at 10% and required a principal payment of $3,600,000 in March 2004. In July 2003, the loan was modified to bear interest at 5% and is payable in various installments through May 2008. The effect of the substantial modification of debt terms resulted in a gain of approximately $61,000. The AICPA has no obligation under the note.

(E) The note, which arose in connection with the acquisition of Capital Professional Advisors, Inc., bore interest at 8% (see Note 12).

Based on borrowing rates currently available, the fair value of long-term debt at July 31, 2003 and 2002 is approximately $12,858,000 and $7,273,000.

Principal amounts due under the above obligations in each of the five years subsequent to July 31, 2003 and thereafter are as follows:

YEAR ENDING JULY 31,

	($000)
2004	$2,036
2005	2,102
2006	2,200
2007	2,320
2008	1,000
Thereafter	3,200

9. COMMITMENTS AND CONTINGENCIES

Computerization of the Uniform CPA Examination

In connection with the computerization of the Uniform CPA Examination ("Examination"), the AICPA is party to an agreement with the National Association of State Boards of Accountancy ("NASBA") and Prometric. Pursuant to the agreement, the AICPA is required to deliver the Examination in a computer-based format by May 2004. NASBA will develop and maintain the National Candidate Database which serves as the gateway for candidates applying to take the Examination. Prometric is responsible for providing scheduling, test preparation, test delivery and results processing of the Examination in a computer-based testing environment consistent with AICPA and NASBA requirements. Fees to Prometric for its services are payable to Prometric based upon the volume of test hours.

The agreement provides for the AICPA to "break-even" with regard to costs incurred in developing the Examination, which are estimated to approximate $20,000,000. Through July 31, 2003, the AICPA has incurred approximately $16,461,000 of such costs, all of which have been deferred. Upon launch of the Examination, the AICPA will receive fees through NASBA based upon the number of examinations taken.

Prometric has provided the AICPA with an interest-free line of credit of up to $10,000,000 to facilitate the conversion of the Examination from a paper-based to a computer-based format. As of July 31, 2003, the AICPA has borrowed $7,000,000 under the line of credit (see Note 8). Beginning with the commencement of the computerized Examination, the AICPA is required to repay the borrowings in annual principal payments equal to $4.00 per test section administered by Prometric but not less than one-seventh of the amount borrowed as of the date of the commencement of the computerized Examination. The initial term of the agreement is seven years from the date of the commencement of the computerized Examination; however, such term can be extended through 2014 based upon certain performance criteria.

Lease Commitments

The Institute has several long-term leases for the rental of real estate. The leases include provisions for the abatement of rental payments, amounts to be paid to the Institute by the landlords, as well as scheduled base rent increases over the respective lease terms.

The total amount of the base rent payments, net of the amounts to be paid to the Institute by the landlords, is being charged to expense using the straight-line method

over the respective lease terms. The accumulated result of using the straight-line method of expensing rent in excess of actual rental payments amounted to $13,534,000 and $14,914,000 as of July 31, 2003 and 2002.

Minimum rental commitments on noncancelable real estate and equipment leases in effect as of July 31, 2003, exclusive of future escalations for real estate taxes and building operating expenses, are:

YEAR ENDING JULY 31,

	($000)
2004	$12,083
2005	11,877
2006	10,760
2007	8,590
2008	7,108
Years subsequent to 2008	27,205
	$77,623

Rental expense for the years ended July 31, 2003 and 2002 was $13,413,000 and $13,525,000.

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 $13,139,000 as of July 31, 2003. Sublease income amounted to $1,398,000 for each of the years ended July 31, 2003 and 2002.

Lines of credit

In addition to the line of credit provided by Prometric, the AICPA has available, but unused, a line of credit with a bank for short-term borrowings of up to $20,000,000, 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 $33,000,000. At July 31, 2003, the account has securities with a market value of $39,000,000. The line of credit expires on January 31, 2004.

Other transactions

C2B had entered into an agreement with one of its Preferred Stock Investors ("PSI") to purchase a minimum of $5,000,000 of products and services to be sold to C2B customers through September 2003. Through June 30, 2003, C2B paid $2,500,000 in advance for the receipt of such products and accrued payments for an additional $2,500,000. During July 2003, C2B reached a settlement with the PSI that relieved C2B of the $2,500,000 obligation in exchange for a payment of $375,000.

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. During 2003, the national accounting firm and the AICPA agreed to stay the litigation indefinitely. Either party can return the litigation to active status upon ten days' notice. Management of the AICPA, C2B and SSLLC believe the action is without merit.

10. 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,	
	2003	2002
	($000)	
Projected benefit obligation	**$68,531**	$59,130
Plan assets available for benefits at fair value	**48,320**	54,156
Projected benefit obligation in excess of plan assets at end of year	**$20,211**	$ 4,974
Accrued pension cost	**$(9,128)**	$ (5,374)

Net pension income (expense) was $(615,000) and $221,000 for the years ended July 31, 2003 and 2002. Benefits paid amounted to $2,329,000 and $2,233,000. There were no employer contributions in 2003 and 2002.

Economic assumptions:	**2003**	2002
Discount rate	**6.25%**	7.00%
Expected long-term rate of return on plan assets	**8.50%**	8.75%
Rate increase in future compensation levels	**4.00%**	4.00%

During the year ended July 31, 2003, the Institute recorded a minimum pension liability of $3,139,000, as required by Statement of Financial Accounting Standards No. 87, *Employer's Accounting for Pensions.* The adjustment is reflected as an intangible asset of $1,313,000 and an increase in deferred employee benefits of $3,139,000 in the statement of financial position and as an increase in pension expense of $1,826,000 in the statement of activities as prescribed when the accumulated benefit obligation of the plan exceeds the fair market value of the underlying plan assets and accrued pension liabilities. The increase in the unfunded accumulated benefit obligation was attributable to a reduction in the assumed discount rate as well as the actual return on plan assets. A .25% increase or (decrease) in the assumed discount rate will have the following effect on the accumulated benefit obligation and the accrued pension cost:

	.25% Increase	.25% Decrease
	($000)	
Projected benefit obligation	$ (2,574)	$ 2,265
Accrued benefit obligation	(1,917)	1,550
Additional minimum pension liability	(1,917)	1,550
Additional pension expense	(1,826)	1,550

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 $1,025,000 and $988,000 for the years ended July 31, 2003 and 2002.

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, 2003 and 2002 was $1,487,000 and $1,269,000.

The accumulated postretirement obligation as of May 1, 2003 and 2002 was $11,926,000 and $12,899,000. Accrued postretirement benefit costs included in the accompanying statement of financial position were $12,412,000 and $11,474,000.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 6.5% and 7% in 2003 and 2002. The weighted average health care cost trend rate used in measuring the postretirement benefit expense was 8.5% and 9% in 2003 and 2002 gradually decreasing to 5.5% in 2009 and remaining at that level thereafter.

The Institute funds the cost of these plans on the cash basis and in 2003 and 2002 paid $549,000 and $533,000.

11. SUPPORT FOR THE FINANCIAL ACCOUNTING FOUNDATION ("FAF")

In 2002, the Institute made a payment to the FAF based on $2.00 per member to support the work of the FASB and a $50,000 payment in support of the work of the GASB.

Effective with the passage of the Sarbanes-Oxley Act on July 30, 2002, the future funding of the FASB is expected to be provided through payments by SEC registrants. As a result of this legislation, the ARA did not make a payment to the FAF in 2003.

12. 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 an agreement (the "Agreement") which gave 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 was required to pay a variable royalty, which was calculated as a percentage of net sales, as defined, and a fixed royalty (the "Royalty"). The Royalty was 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.

Effective July 2002, the Agreement was amended (the "New Agreement") to modify the relationship between the AICPA and C2B. Under the New Agreement, C2B became the exclusive online and offline marketing agent for certain products and services of the AICPA (the "AICPA Marketed Products"). C2B is also responsible for maintaining the official Web site for the sale of AICPA Marketed Products. As consideration for providing such services, C2B is entitled to receive a commission, which is calculated as a percentage of sales as defined in the New Agreement. The New Agreement further provides for various royalties to be paid by each party to the other in exchange for the sale and distribution of non-AICPA Marketed Products. In addition, C2B will lease office space from the AICPA in New York and New Jersey at an annual rental of approximately $271,000. The AICPA purchased, at recorded value, certain operating assets and assumed certain liabilities from C2B. The recorded value of the liabilities assumed exceeded the recorded value of the assets received by $4,344,000 and the AICPA received a note for such amount from C2B.

The note and all interest thereon at 8% shall be repaid in full by C2B on December 31, 2007. However, under certain conditions, payments may be accelerated. In addition, as long as principal is outstanding, C2B is obligated to make an annual minimum cash payment of $50,000 or issue shares of common stock of equivalent value. C2B may prepay the principal in whole or in part at any time. The note is collateralized by C2B's Web site technologies. As of July 31, 2003, the outstanding principal balance of $4,344,000 and accrued interest thereon of $377,000 have been eliminated.

In February 2002, the Board of Directors of C2B approved a 400-to-1 stock split of C2B's common and preferred stock. All references to the number of shares, per share amounts, cash dividends, and any other reference to shares in the financial statements and the accompanying notes, unless otherwise noted, have been adjusted to reflect the split on a retroactive basis. Previously awarded stock options and all other agreements payable in shares of C2B's common stock have been adjusted or amended to reflect the split.

The aggregate number of shares of all classes of stock which C2B is authorized to issue is (i) 120,000,000 shares of common stock, par value $.01 per share ("Common Stock") and (ii) 40,000,000 shares of preferred stock, par value $.01 per share, of which 24,000,000 shares shall be designated 8% Series A Convertible Mandatory Redeemable Preferred Stock (the "Series A Preferred Stock") and 8,000,000 shares designated 8% Series B Convertible Mandatory Redeemable Preferred Stock (the "Series B Preferred Stock").

As of July 31, 2003, the 8,000,000 authorized shares of preferred stock, which are not considered to be either Series A or Series B 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 and Series B Preferred Stock have received the dividends to which they are entitled.

Through July 31, 2001, C2B sold 40,150,800 shares of common stock of which 36,000,000 shares were purchased by the AICPA and 1,940,000 shares were purchased by senior management of the AICPA. The Common Stock purchased by senior management of the AICPA was donated to the Foundation in July 2002. In addition, C2B issued 392,000 shares in 2001 in connection with the acquisition of Capital Professional Advisors, Inc. ("CapPro"). These shares were reacquired as part of the sale of CapPro during 2003. In 2002, C2B issued 10,031,791 shares in connection with another acquisition.

The following table summarizes the common shares issued by C2B during the years ended July 31, 2003 and 2002:

	Number of Shares	Common Stock	Additional Paid-in Capital
Balance, August 1, 2001	40,542,800	$ 1,013	$3,356,818
Effects of stock split on common stock and additional paid-in capital		404,415	(404,415)
Acquired entity	10,031,791	100,318	2,647,473
Issuance of options in connection with acquired entity			169,434
Effects of purchase adjustment on prior year's acquisition			1,050,000
Issuance of stock for services	161,499	1,615	823,895
Exercise of options	1,534	16	10,292
Cancellation of below market options			(2,550,471)
Balance, July 31, 2002	50,737,624	507,377	5,103,026
Disposition of CapPro	(553,499)	(5,535)	(188,190)
Balance, July 31, 2003	50,184,125	$501,842	$4,914,836

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 Series A Preferred Stock price of $4.26 per share and is, at the option of the holder, redeemable by C2B on January 11, 2008. The Series A Preferred Stock is senior in liquidation to the Series B Preferred Stock.

Dividends shall be payable in additional shares of Series A Preferred Stock or cash, at the option of C2B. During the years ended July 31, 2003 and 2002, C2B accrued, but did not pay, $4,349,964 and $4,716,586 of Series A 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 9,388,000 shares of Series A Preferred Stock for net proceeds of $39,999,280. An additional 1,760,000 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 1,955,992 shares of Series A Preferred Stock for net proceeds of approximately $10,000,000. An additional 1,466,849 shares of Series A Preferred Stock were issued in February 2002, which resulted in proceeds of $7,500,000. In October 2002, the Series A Preferred Stock issued in February 2002 was reacquired as part of the sale of CapPro.

In addition to the purchase of Series A Preferred Stock, certain investors received a fully vested warrant to purchase an additional 2,484,356 shares of Series A Preferred Stock for an aggregate exercise price of approximately $62. The full benefit of this arrangement of $9,873,000 will be recognized as "deemed dividends" over the anticipated life of the Series A Preferred Stock. C2B recorded deemed dividends of $1,341,882 and $2,093,199 during the years ended July 31, 2003 and 2002. The warrants will expire upon conversion or redemption of the Series A Preferred Stock.

The Series B Preferred Stock differs from Common Stock and Series A Preferred Stock in that it is senior to Common Stock, but junior to Series A Preferred Stock in the case of a liquidation and the payment of dividends. Series B Preferred Stock 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 increases the number of shares of Common Stock issued for each share of Series B Preferred Stock if a Common Stock transaction is completed with a lower per share price than the initial Series B Preferred Stock price of $5.11 per share, and also increases the number of shares of Common Stock issuable for each share of Series A Preferred Stock based on the time elapsed prior to a qualified sale event, as defined. Furthermore, at the option of the holder, the Series B Preferred Stock is redeemable by C2B on February 19, 2009.

Dividends shall be payable in additional shares of Series B Preferred Stock or cash, at the option of C2B. During the years ended July 31, 2003 and 2002, C2B has accrued, but not paid, $1,599,318 and $718,741 of Series B Preferred Stock dividends.

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

Included in accounts payable and other liabilities at July 31, 2003 and 2002 is $13,317,911 and $7,368,629 related to accrued, but unpaid, preferred stock dividends. Minority interest for the years ended July 31, 2003 and 2002 is net of preferred stock dividends.

In September 2000, C2B established a stock option plan (the "C2B Plan"). As part of the acquisition of Rivio, Inc. ("Rivio"), C2B adopted the former stock option plan that Rivio had for its employees prior to the acquisition. The former Rivio stock option plan was renamed the CPA2Biz, Inc. 1999 Stock Incentive Plan for California Employees (the "California Plan"). The former Rivio stock options were converted according to the exchange ratio used in the acquisition of Rivio into California Plan stock options which grant the holder the right to purchase C2B stock. The C2B Plan and the California Plan (collectively the "Plans") provide for the issuance of stock options solely to key employees and consultants of C2B and not AICPA employees. Under the terms of the Plans, 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 Plans 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 was being amortized over the vesting period of the related options. Amortization expense for the year ended July 31, 2001 was $279,976. During the year ended July 31, 2002, the two employees who received options below fair market value terminated their employment with C2B and did not vest in the options.

Accordingly, deferred compensation and the previously recognized expense related to these options was reversed. As part of the acquisition of CapPro, C2B assumed options which had a corresponding deferred compensation charge of $134,871. The amortization to compensation expense of these options for the years ended July 31, 2003 and 2002 was $14,857 and $78,947. The unamortized balance of $41,607 at the date of disposition of CapPro was included in the calculation of the gain on disposition. 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 Plans, C2B reserved 8,863,600 shares of Common Stock at July 31, 2003.

The following table summarizes activity under the Plans:

	Shares Under Option	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
Outstanding at August 1, 2001	5,508,800	$1.57		
Granted	2,952,304	2.39		
Exercised	(1,534)	6.72		
Cancelled	(2,964,875)	1.69		
Outstanding at July 31, 2002	5,494,695	2.03	2,797,088	$1.07
Granted	857	5.11		
Cancelled	(2,957,536)	2.60		
Outstanding at July 31, 2003	2,538,016	$1.28	2,326,099	$1.01

The following table summarizes information about stock options outstanding under the Plans at July 31, 2003:

	Options Outstanding		
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$0.37 – $0.38	1,164,111	8.5 years	$0.38
0.44 – 0.46	62,181	7.4 years	0.45
0.95 – 0.97	880,442	7.3 years	0.96
4.25 – 4.27	328,333	7.5 years	4.26
5.10 – 5.12	102,949	8.5 years	5.11
	2,538,016		$1.28

As permitted by SFAS No. 148 and No. 123, C2B applied APB No. 25 and related interpretations in accounting for its Plans and other stock-based compensation issued to employees prior to July 31, 2002.

The weighted-average fair value of options granted during the year ended July 31, 2002 was approximately $.59. Options granted during the year ended July 31, 2003 had no value.

Had compensation cost been determined based upon the fair value at the grant date for awards under the Plans consistent with the methodology prescribed under SFAS No. 123, C2B's net loss would have been increased by approximately $163,000 and $345,000 for the years ended July 31, 2003 and 2002. 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 3.99% to 6.18%; (ii) dividend yield of 0.00%; (iii) expected life of ten years; and (iv) volatility of 0.001%.

In July 2001, C2B acquired all the outstanding shares of CapPro. The purchase price consisted of the issuance of a $3,000,000 note, the issuance of 392,000 shares of Common Stock and approximately $860,000 of other direct acquisition costs. At July 31, 2001, based upon a preliminary valuation of CapPro, the purchase was recorded at a price of $4,000,000 and, accordingly, the 392,000 common shares issued were recorded at $140,000. As the final valuation of CapPro reflected a value of approximately $5,050,000, an additional $1,050,000 was recorded as goodwill and additional paid-in capital during the year ended July 31, 2002.

Contemporaneously with the acquisition, C2B and the former stockholders of CapPro entered into a commercial services agreement which provided that if the former stockholders did not meet certain performance obligations by July 30, 2003, then those stockholders, at C2B's option, could forfeit 50% of the C2B Common Stock that was received in the acquisition transaction. As such, no amounts were recorded for these shares through July 31, 2002.

In addition, the former stockholders of CapPro were entitled to earn up to 575,200 of additional shares of Common Stock, contingent upon meeting certain performance levels. In connection therewith, C2B issued 161,499 shares of Common Stock with a fair value of $823,895 during the year ended July 31, 2002.

The acquisition was accounted for under the purchase method of accounting.

In October 2002, C2B completed the sale of CapPro to an investor (the "Purchaser") that held 553,499 shares of C2B Common Stock and 1,446,849 shares of Series A Preferred Stock (collectively the "Equity Interests"). The Purchaser exchanged all of its Equity Interests which had a fair value of $7,693,725 at the date of the exchange for the common stock that C2B held in CapPro. The sale of CapPro was a noncash transaction and, accordingly, is not reflected in the accompanying statement of cash flows.

The accompanying financial statements have been restated to reflect CapPro as a discontinued operation for all periods presented. Operating results of CapPro are summarized as follows:

	2003	2002
	($000)	
Net sales	**$4,414**	$ 9,603
Loss from discontinued operations	**$ (727)**	$(3,057)
Gain on disposal	**6,329**	
Discontinued operations	**$5,602**	$(3,057)

The net liabilities of CapPro at July 31, 2002 consisted of the following:

	($000)
Goodwill	$ 4,799
Furniture, technology and leasehold improvements, net	96
Net current liabilities	(4,063)
Long-term debt	(3,000)
Net liabilities	$ (2,168)

In February 2002, C2B acquired all the outstanding shares of Rivio, a provider of Web-based business operation tools for small businesses, in exchange for the issuance of 3,910,310 shares of Series B Preferred Stock, 10,031,791 shares of Common Stock and vested stock options to purchase 1,543,508 shares of Common Stock at an exercise price of $.3902 per share through February 2012.

A summary of the purchase price is as follows:

	($000)
Issuance of Series B Preferred Stock	$ 19,982
Issuance of Common Stock	2,748
Issuance of vested stock options	169
Other direct acquisition cost	767
	$ 23,666

A summary of the allocation of the purchase price is as follows:

	($000)
Tangible assets acquired	$ 3,684
Trade name	1,783
Technology	3,120
Contracts	2,525
Goodwill	12,554
	$ 23,666

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired. Trade name represents the estimated fair value of the Rivio product name on the date of acquisition. Technology represents the fair value of Rivio applications and other technologies on the date of acquisition. Contracts represent the fair value of Rivio customer contracts on the date of acquisition.

Summarized consolidated financial information of C2B as of and for the years ended July 31, 2003 and 2002 is as follows:

	2003	2002
	($000)	
Total assets	**$ 25,086**	$ 44,446
Total liabilities	**$ 29,065**	$ 31,574
Preferred stock	**80,916**	87,074
Common stockholders' deficiency	**(84,895)**	(74,202)
	$ 25,086	$ 44,446
Revenue	**$ 14,684**	$ 29,555
Net loss	**$ (3,202)**	$(33,843)

As shown above, since inception C2B has sustained significant losses and at July 31, 2003, has a common stockholders' deficiency of approximately $84,895,000, which has been primarily funded by the preferred stockholders.

In response to current market conditions and as a part of its ongoing corporate strategy, during 2003, C2B completed several initiatives intended to increase liquidity and be better positioned under current market conditions. Among these initiatives were the renegotiated agreement with the AICPA; the restructuring of operations and cost-cutting programs; and the focus on selling core products being offered to AICPA members and others.

In addition, C2B formed a number of new strategic commercial relationships with third parties and also negotiated with creditors to reduce interest rates on its debt and to extend the terms of its notes so that no material future payments are required during the year ending July 31, 2004.

Management of C2B believes these initiatives will provide sufficient cash flow for the next twelve months. However, if C2B's 2004 financial results do not meet or exceed its cash flow projections, management believes that they have contingency plans to mitigate decreases in revenue through concomitant reductions in expenses. Nevertheless, if revenues were to be substantially lower than anticipated or expenses substantially higher, there is a possibility that the available cash resources may not be sufficient for C2B's cash requirements.

At July 31, 2003, the AICPA has approximately 56% of C2B's voting rights. Accounting principles generally accepted in the United States of America require that, as the holder of the majority of voting rights, the AICPA include the accounts of C2B in its financial statements even though the AICPA is not responsible for any liabilities of C2B. Should the AICPA cease to have voting control, C2B would no longer be included in the financial statements of the AICPA, the effect of which would be the reversal of approximately $83,000,000 of previously recorded losses.

At July 31, 2003, C2B has deferred tax assets of approximately $49,000,000 which arise primarily from net operating loss carryforwards for Federal income tax purposes of approximately $117,000,000 expiring through 2023 and certain other temporary differences. Included in these net operating losses are pre-acquisition losses for Rivio of approximately $61,000,000 which are subject to annual limitations. Due to the uncertainty of the realization of the deferred tax assets, a full valuation allowance has been provided at July 31, 2003. The timing and manner in which the net operating loss carryforwards can be utilized in any year by C2B may be limited by the Internal Revenue Code.

13. SHARED SERVICES, LLC

SSLLC's members consist of the AICPA and State Societies Network, Inc. ("SSNI"). SSNI is composed 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 received royalties in the amount of 1.75% of C2B's gross profits, as defined. Such royalties were paid to SSNI. In addition, SSLLC was to receive additional royalties from C2B based on operating expenses incurred up to a maximum of $5,000,000 annually. The relationship between C2B and SSLLC terminated in May 2002 and, since that date, SSLLC has had no operating revenue.

At July 31, 2002, SSLLC had a receivable from C2B in the amount of $1,297,000 which had been discounted to approximately $797,000. During the year ended July 31, 2003, $1,201,000 was repaid and, accordingly, $404,000 was recognized as interest income in the following summarized financial information.

Summarized financial information of SSLLC as of and for the years ended July 31, 2003 and 2002 is as follows:

	2003	2002
	($000)	
Total assets	**$ 705**	$1,237
Total liabilities	**395**	344
Members' equity	**$ 310**	$ 893
Revenue		$2,000
Net income (loss)	**$(807)**	$ 223
AICPA's share of net loss	**$(404)**	$ (1)

As SSLLC has not had operating revenue since May 2002, the AICPA wrote down its equity investment of approximately $335,000 in SSLLC to zero at July 31, 2002. In June 2002, the AICPA agreed to fund SSLLC $150,000 for the months of August and September 2002. Based upon a revised business plan of SSLLC, approximately $224,000 of such funding was recorded as an additional investment in SSLLC and approximately $76,000 was recorded as a loan receivable in 2003. Since no additional commitments were made subsequent to September 2002, and the AICPA does not guarantee any of SSLLC's liabilities, the AICPA recorded $300,000 of its share of SSLLC's net loss to reduce the aggregate investment in and advances to SSLLC to zero at July 31, 2003.

14. NET ASSETS

Net assets and changes in net assets for the years ended July 31, 2003 and 2002 follow:

	Balance, August 1, 2001	Increase (Decrease)	Balance, July 31, 2002	Increase (Decrease)	**Balance, July 31, 2003**
			($000)		
Unrestricted:					
AICPA	$33,330	$(13,135)	$ 20,195	$ 1,421	**$ 21,616**
C2B	(41,051)	(39,669)	(80,720)	(9,525)	**(90,245)**
Division	1,689	1,486	3,175	1,543	**4,718**
ARA	995	(565)	430	536	**966**
Benevolent Fund	4,185	(166)	4,019	279	**4,298**
Foundation	3,871	(108)	3,763	(85)	**3,678**
	3,019	(52,157)	(49,138)	(5,831)	**(54,969)**
Restricted:					
Foundation:					
Library Fund	648		648		**648**
	$ 3,667	$(52,157)	$(48,490)	$(5,831)	**$(54,321)**

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

15. SUPPLEMENTARY CASH FLOW INFORMATION

Noncash investing and financing activities for the years ended July 31, 2003 and 2002 follow:

	2003	($000)	2002
Disposition of CapPro	**$7,694**		
Issuance of common stock for business acquisition			$ 3,799
Issuance of preferred stock for business acquisition			$19,982
Issuance of vested stock options for business acquisition			$ 169

16. DIVISION FOR CPA FIRMS

Effective May 1, 2002, the Public Oversight Board ("POB") terminated its existence. The executive committee of the SECPS determined that it was in the best interest of the public and the profession to continue its peer review activities in 2003 subject to monitoring by the Transition Oversight Staff (the prior staff of the POB) and oversight by an Independent Reporter. On July 30, 2002, the Sarbanes-Oxley Act was signed into law which established the Public Company Accounting Oversight Board. The AICPA and the SEC executive committee are exploring alternative structures for the SECPS in light of this legislation and the nature and extent of the Public Company Accounting Oversight Board's activities.

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