2004

AICPA annual report 2003-04; AICPA: Where CPAs come together

American Institute of Certified Public Accountants

The AICPA: Where CPAs Come Together | 2003 – 2004 Annual Report

AICPA

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AICPA

Barry C. Melancon, CPA, President and CEO, and
S. Scott Voynich, CPA, Chairman

A Message to Members . . .

Increased vitality, sharpened focus and professional pride — these words describe our profession's renewal during the past year. This annual report, "The AICPA: Where CPAs Come Together," focuses on how the Institute's volunteer leaders and dedicated staff have worked to unify and support CPAs, helping restore our profession to the people and businesses who depend on us. CPAs across America, from firms and companies of all sizes and from every area of the profession, have banded together to reaffirm their continued commitment to the profession's core values.

The AICPA's primary goal is to help CPAs carry out their unique public service mission. Underscoring the CPA's role as financial guardian, we focused on four areas this year — improving the quality of audits and other services to uphold the public's trust; reintroducing the public to CPAs; supporting small businesses and the CPA firms that work for them; and forging better working relationships with legislators, regulators and others on behalf of the public and our members.

Audit and service quality always have been top priorities for our profession. This past year saw the launch of new centers designed to help CPAs continue to demonstrate the meaning of integrity, competence and objectivity. Similarly, the AICPA's specialized credentials and related membership sections are boosting individual credential holders' ability to serve clients and potential clients and expanding guidance and support for members in those practice areas.

Independent and AICPA research shows that clients, business leaders and investors believe in the value and honor of their own CPAs. In light of that trust, the AICPA set in motion several initiatives putting individual CPAs at the forefront. The Institute connected with CPAs across the nation to help them reach out to their local communities to provide financial education and information about our profession. Our new *360 Degrees of Financial Literacy* initiative, carried out by CPA volunteers nationwide, shows that financial education is a lifelong endeavor — from a child learning about money to adults reaching a secure retirement. Another major initiative, the *CPA Ambassador Program*, trains CPAs as community spokespeople on

from the Chairman and President

the important issues of financial literacy, student recruitment, restoring confidence in the profession, and small business success.

On the issue of small business and private companies, we joined forces with small firms to help them tackle the challenges confronting this important sector of the economy. Whether it is through an Auditing Standards Board that has been reorganized to focus more on audits of private entities, a task force exploring the relevance of generally accepted accounting principles for private companies, or appointment of a Vice President — Small Firm Interests, we have made certain that small businesses and their accounting firms can successfully meet the demands of their business environments.

Without question, relations with legislators, regulators and others play a critical role in how the profession functions in the real world. We continue to branch out to all affected parties and stakeholders, sharing our technical expertise and speaking up for the benefit of the public and our members.

And the AICPA continues to help CPAs serve the public interest in other ways, too. Improved ethics enforcement and increased transparency in the peer review process will meet marketplace demands for accountability and disclosure. Consumers' personal information is better protected thanks to a new privacy framework developed under the AICPA's leadership. Through the new computerized Uniform CPA Examination, which tests a CPA candidate's research, analytical, judgment and communication skills, clients and employers are assured entry-level CPAs possess the attributes and abilities required in today's business environment. Furthermore, testimony before Congress demonstrated our strong support for legislation that would eradicate abusive tax shelter transactions.

Each of you should be proud of how CPAs came together this past year to usher in a rejuvenated accounting profession. Through AICPA services and programs, our 335,000 members are demonstrating that CPAs are living up to the hallmarks of our profession. By exemplifying a combination of ability and ethics, individual CPAs are a potent force in America, continuing to enhance the profession's reputation as trusted financial advisers.

S. Scott Voynich, CPA
Chairman

Barry C. Melancon, CPA
President and CEO

Stepping Up to the Highest Standards of Performance

Audit Quality Centers Launch

CPAs have always taken great pride in their role as auditor and protector of the public trust. This past year, the AICPA launched three new audit quality centers designed to promote improvement in the quality of audits for public companies, employee benefit plans and governments. Center participants demonstrate the hallmark that distinguishes all great professions: a commitment to step up voluntarily to higher professional expectations.

The SEC Practice Section was restructured and replaced with the Center for Public Company Audit Firms (CPCAF). Through voluntary membership in the CPCAF (www.aicpa.org/cpcaf), 950 firms have access to technical and educational guidance and member forums. Firms also can participate in a peer review program for audits of non-public companies, with the Public Company Accounting Oversight Board (PCAOB) overseeing inspections of public company audits.

Center for Public Company Audit Firms
AICPA
Committed to Audit Quality

Employee Benefit Plan Audit Quality Center
AICPA

Governmental Audit Quality Center
AICPA

The Employee Benefit Plan Audit Quality Center (www.aicpa.org/ebpaqc) and the Governmental Audit Quality Center (www.aicpa.org/gaqc) also are working to help CPAs achieve the highest standards of performance on behalf of investors, employees, citizens and governmental bodies. Through the centers, members share and learn best practices, get timely news and information, discover how to tackle new issues, receive education and benefit from advocacy.

New Independence Rules Apply

Helping CPAs uphold their commitment to objectivity, the AICPA clarified its rules related to CPAs performing nonattest services for attest clients. New rules issued by the Professional Ethics Executive Committee (PEEC) reflect the committee's longstanding position prohibiting AICPA members from performing management functions or making management decisions on behalf of attest clients. Members may now look to the revised interpretation (www.aicpa.org/download/ethics/interp_revisions_Sept03.pdf) for clarification of existing guidance regarding bookkeeping and internal audit services and further restrictions on valuation, appraisal and actuarial services and information design and development. Documentation requirements regarding a member's understanding with the client about services to be performed are included as well. Members have received implementation guidance through many resources, including questions and answers developed by the Ethics team.

Improved Ethics Enforcement and Peer Review Transparency

AICPA members voted by a 7–1 margin to adopt two bylaw amendments that strengthen the ethics enforcement process,

Market Served:

Consumers, producers and auditors of financial information

Benefit:

Trustworthy data prepared with integrity

Of Note:

590 accounting firms have joined the Employee Benefit Plan Audit Quality Center as of July 31, 2004. Approximately 90% of firms enrolled in the SEC Practice Section joined the new Center for Public Company Audit Firms.

in yet another display of zero tolerance for those who break the rules. The first amendment allows the Institute to automatically sanction an AICPA member if a regulatory authority approved by PEEC and the AICPA Board of Directors has taken disciplinary action against the member. Passage of the second bylaw amendment will help shed more light on the disciplinary process, allowing PEEC to provide for more relevant disclosures about the matters it has investigated, including disclosing investigative results to a complainant. In addition, the AICPA governing Council revised its resolutions enabling PEEC to, in appropriate cases, admonish AICPA members who violate the Code of Professional Conduct.

In line with the public's greater interest in peer review results, Council overwhelmingly approved a resolution supporting the appropriateness of greater transparency. Several forward-thinking initiatives to achieve this goal were put forth. At members' requests, the Peer Review Board will assist members in meeting their state licensing requirements by providing state boards of accountancy with certain peer review information. Also, the AICPA has begun a member awareness campaign about the history and role of peer review and its evolution to today's model in which increased disclosure is more and more in demand.

Collaborating with the FBI to Fight Fraud

When it comes to fighting white-collar crime, who better for the AICPA to team with than the Federal Bureau of Investigation (FBI)? Joint efforts designed to help the AICPA and the FBI share information about corporate financial fraud included a Webcast on lessons learned from real-life cases, watched by approximately 20,000 accountants nationwide; articles in various AICPA publications; imparting fraud detection and deterrence techniques and other invaluable information on auditing "tricks and traps"; and having a better understanding of the roles and responsibilities of CPAs and law enforcement officials. And the FBI also continues actively to recruit CPAs (www.fbijobs.com) — already more than 2,000 accountants help the agency investigate and analyze cases, and 15% of new hires are slated to be CPAs this year.

Making Audit Committees More Effective

CPAs play an important role in helping audit committees improve their performance and meet their oversight obligations to ensure accurate and honest financial statements. To assist CPAs with that mission, the AICPA this year established an Audit Committee Effectiveness Center (www.aicpa.org/audcommctr). The center houses information for audit committees of all sizes and types of organizations — publicly held, private, not-for-profit and other public interest entities — to provide best practices for corporate management and boards of directors. It also offers training recommendations for audit committees, along with resources for those who interact with them. Benefits available through the center include the AICPA Audit Committee Toolkit, e-Alert subscriptions and an Audit Committee Matching System enabling qualified CPAs and organizations seeking audit committee members to find each other.

Ensuring Small Firm Success

Small Firms Have a Home at AICPA

Small CPA firms can find a comprehensive support network in PCPS, the AICPA's membership section for CPA firms. As a voluntary membership group, PCPS (www.pcps.org) member firms receive information, tools, guidance and benefits developed with small firms in mind. One of its most valuable benefits, the PCPS/Texas Society of CPAs National MAP Survey, enables firms to benchmark management policies and financial results against other firms while gaining strategic guidance to build a more profitable practice. PCPS/MAP Network groups extend a forum for discussing in-depth practice management issues and exchanging information on firm operations, niche services, best practices of service line deployment and other pertinent professional issues. A monthly e-newsletter, *PCPS Brief*, digests information, news and resources on targeted issues and offers ways to put ideas into action. Brochures on various topics help clients and promote the firm. Moreover, small firms' views are represented before standard setters as well as AICPA boards and committees.

Market Served:

Local and regional CPA firms

Benefit:

Products and services tailored to the specific needs of smaller firms

Of Note:

PCPS member firms could save more than $800 a year through discounts on conferences, industry publications, business services and products; more than 40,000 local and regional firms are served by PCPS activities.

A New Vice President Leads the Way

Marshaling the forces to support small firms is no small job. James Metzler, CPA, stepped up to the plate this year to become the Institute's Vice President–Small Firm Interests, a newly created position. Formerly a partner of a local CPA firm for 32 years, Metzler supervises firm practice management initiatives and serves as an advocate for small firms — what he equates with "having a prime seat at every table." As part of his ongoing tour around the country, Metzler typically visits two to three cities a week listening to small firm practitioners' opinions and concerns so the Institute can better address their needs.

Protecting Small Firms Not Working in the Public Company Environment

The AICPA has been working diligently to ensure that provisions of the Sarbanes-Oxley Act are not applied inappropriately beyond the intended target, public companies. To prevent the federal law from unnecessarily "cascading" to private companies or non-profits, and therefore the CPA firms working for them, the AICPA formed the Special Committee on State Regulation (www.aicpa.org/statelegis/index.asp) in 2002. Continuing its work with state CPA societies around the country, the AICPA studies and recommends responses to attempts by state legislators, regulators or executive branch officials to adopt unnecessary provisions of Sarbanes-Oxley, which are inappropriate for non-public companies. Presently, several states have accounting reform measures pending. The committee's compendium of white papers and issue briefs, called *A Reasoned Approach to Reform,* has been used extensively nationwide to help educate not only our members and state elected officials, but the business community as well.

Supporting Private Companies and Small Businesses

Polling CPAs on Small Business Issues

Without a doubt, small business is an important sector of the economy, and CPAs are their trusted financial advisers. To get a handle on the needs of small business and help CPAs serve their clients, the AICPA Virtual Grassroots Panel polled several hundred CPAs. Questions focused on priority economic issues; how CPAs benefit small business; the organizations serving small businesses; and top state or national legislative and regulatory issues affecting this market segment. Not surprisingly, health care and taxes topped the list of concerns. Members will see new efforts and programs emerge during the next year based on information gleaned from this poll.

Exploring GAAP for Private Companies

Do generally accepted accounting principles (GAAP) meet the financial reporting needs of all constituents of for-profit, private companies? How does the cost of complying with all aspects of GAAP requirements stack up against the related benefit? A special task force on private company financial reporting is pondering these questions. A majority of our members work in the private company environment and are involved in private company financial reporting. Over the years, some have shared their and their clients' concerns about GAAP. To help address these concerns, in July 2004 the Private Company Financial Reporting Task Force, working with an independent market research firm, released a survey to AICPA members and other stakeholders of financial statements, such as lenders, investors, sureties, business owners, preparers and practitioners. In fall 2004, the task force will compile and analyze the results. If warranted, it will make recommendations regarding GAAP for private companies.

Focusing the Auditing Standards Board on Non-Public Company Auditors

To focus more attention on the needs of auditors of non-public companies, the Auditing Standards Board (ASB) was reorganized. The ASB now includes representatives nominated by the National Association of State Boards of Accountancy, as well as users of audited non-public company financial statements and non-CPAs. Moreover, a formal process is in place among the ASB, the PCAOB and the Government Accountability Office to coordinate agendas and ensure differences in auditing standards occur only when necessary due to different circumstances between public and private company audits.

Guiding Members on Applying PCAOB Standards

Members were promptly provided with information about the applicability and appropriateness of the PCAOB's standards when auditing private companies, not-for-profits and governmental entities (www.aicpa.org/download/ethics/audreportltr.pdf). Furthering member guidance in this area, the ASB issued two new interpretations of Statement on Auditing Standards No. 58, *Reports on Audited Financial Statements* (www.aicpa.org/members/div/auditstd/announce/index.htm). One clarifies that an audit performed in accordance with generally accepted auditing standards

Market Served:

Companies that do not offer publicly traded stock

Benefit:

Making sure these companies have the financial information necessary to operate successfully

Of Note:

CPAS are trusted advisers to America's private businesses, serving more than 4.8 million companies not registered with the Securities and Exchange Commission.

(GAAS) does not require the same level of testing and reporting on internal control over financial reporting as an audit of an issuer covered by the Sarbanes-Oxley Act. The other provides guidance and illustrative report wording when an auditor follows both GAAS and the PCAOB's auditing standards.

AICPA, State CPA Societies Partner with DOL to Educate Small Business on ERISA

The Employee Retirement Income Security Act (ERISA) is a fundamental element of ensuring the protection of health and retirement benefits for the nation's employees. To help educate small businesses and service providers about their fiduciary responsibilities under ERISA, the AICPA partnered with the U.S. Department of Labor (DOL) on a national campaign. "Getting It Right — Know Your Fiduciary Responsibilities" offers seminars, educational materials and a devoted Web site (www.dol.gov/ebsa). The Arizona, Missouri and Kansas CPA societies joined the AICPA in presenting the first seminar open to the small business community. In announcing the venture, the AICPA praised DOL Secretary Elaine L. Chao's efforts to raise awareness of this important small business issue, saying many of our members, including CPAs holding the Personal Financial Specialist credential, serve as trusted advisers to the small business owner and provide advice to investment committees of public and private companies.

Anita Baker, chair of the AICPA Employee Benefit Plan Audit Quality Center Executive Committee, and Nancy Roach, chair of the Arizona Society of CPAs, speak to small business owners attending the U.S. DOL seminar in Phoenix, Arizona.

Enabling Small Companies to Select Their Year-Ends

Small, private companies should be allowed to have their tax year coincide with their business flow, say the CPAs who serve as financial advisers to these businesses. That's why the AICPA supported the "Small Business Tax Flexibility Act," designed to offer most start-up businesses operating as partnerships or S corporations the chance to adopt any fiscal year-end from April through December. Such flexibility would permit new businesses to retain additional operating resources, use a more natural business cycle and ease record-keeping burdens.




Teaching America about Finances

Financial Literacy and the Cycle of Life

CPAs are the ideal professionals to help Americans understand their personal finances during every cycle of life, from school-age children saving money in a bank to older adults reaching a secure retirement. On May 17, 2004, the AICPA launched *360 Degrees of Financial Literacy* (www.aicpa.org/financialliteracy). U.S. Comptroller General David Walker, CPA, joined the AICPA in announcing the program, emphasizing the role CPAs can take in improving the financial literacy of individuals and encouraging CPAs to take the lead. He called on the nation's CPAs to make a difference.

U.S. Comptroller General David Walker (center) joined AICPA President and CEO Barry Melancon (left) and Chairman S. Scott Voynich (right) in calling on CPAs to join the financial literacy effort.

This new initiative puts CPAs at the forefront of financial education, teaching Americans about saving, debt, taxes, investments and insurance, among other important topics. CPAs are encouraged to register their interest in getting involved by visiting a new volunteer Web site at https://volunteers.aicpa.org/financialliteracy. Those who get involved with the program have access to numerous resources, such as brochures, speeches, a Web site, and a complimentary continuing professional education course on crucial financial literacy issues. In addition, the AICPA will award a Certificate for Volunteer Financial Literacy Service. Consumers also may visit a new Web site (www.360financialliteracy.org) featuring financial information across the life stages and participate in a series of online chats hosted on *USA Today's* Web site.

360 Degrees of Financial Literacy
AICPA

Market Served:

Everyone, school age to retiree

Benefit:

Improved individual financial well-being which, in turn, improves financial health of America

Of Note:

95% of AICPA members responding to a poll said financial literacy was extremely or very important; 87% of those not yet volunteering in this area said they were interested in doing so.

Lending a Helping Hand

For many people in financial distress, paying for advice is out of the question. In the spirit of public service, CPAs have answered the call. The AICPA and five of the country's leading financial planning groups joined forces to sponsor the *Project for Financial Independence*, a pro bono financial planning effort offering free financial guidance to people who cannot afford an adviser or who face an immediate or unusual financial need.

Working with several non-profit organizations, the *Project for Financial Independence* identifies people needing assistance and links them to a local volunteer financial adviser belonging to one of four participating membership organizations, such as the AICPA. CPAs and CPAs with the Personal Financial Specialist (PFS) credential are encouraged to lend a helping hand. Information, resources and guidelines are available from www.consultaplanner.org (if interested, send an e-mail to PFPVOL@aicpa.org). Financial planning resources on budgeting and saving, estate and retirement planning, managing credit and investing, as well as information about CPAs who hold the PFS credential, are available from www.aicpa.org/pfpinfo/index.asp.

Assisting Those Recovering from Disasters

An earthquake unexpectedly hits, your home is flooded from severe rain storms, a wild fire ravages your neighborhood. *Disaster Recovery: A Guide to Financial Issues* can help you find your way. This guide, developed by the AICPA and the National Endowment for Financial Education with support from the AICPA Foundation, helps people cope with the financial issues that arise after a disaster. Distributed across the country through local American Red Cross chapters as a public service, the guide has been given to more than 125,000 people. In addition to the guide, the AICPA mobilized CPA volunteers across the country to help educate the public about recovery steps. Recognizing the important information and contributions of this disaster recovery initiative, the American Society of Association Executives (ASAE) honored the AICPA with both a 2004 Award of Excellence and a 2004 Summit Award, the ASAE's most prestigious award.




Bringing CPAs to the People

CPA Ambassadors Spread the Message

Capitalizing on the profession's solid image improvement in the past year and research showing that business leaders and investors have not wavered in the trust they held in their CPAs, the AICPA and state CPA societies joined together in mobilizing "CPA Ambassadors" to reintroduce the profession to the American public. They are specially trained to serve as spokespeople on four critical issues for CPAs: financial literacy, small business success, student recruitment, and restoring confidence in the profession. By July 31, eleven states and four committees, as well as more than 185 CPA volunteers, have received training. Many more training sessions through 2004 and 2005 are scheduled.

CPA Ambassadors put their learning into practice in their communities either through speaking engagements or media interviews. In their community outreach, CPAs can promote the importance of business and financial knowledge and how they can help. Those who participate in the training earn a special CPA Ambassador pin and have their names cited on the Web site (www.cpaambassador.org). By tapping the strength of individual CPAs, the Ambassador program will bring greater recognition and appreciation of the enduring value of the CPA to communities, business leaders, employers, investors, legislators and others across the country.

Further Shoring Up CPAs' Reputation

Building on the gains made in 2003 to restore the CPA profession's image, the AICPA created three new print ads and two 60-second radio spots for state CPA society placement in local media. Under the theme "America Counts on CPAs," the ads were targeted to business executives and investors and for members in small- and medium-sized businesses and firms. They demonstrated the value CPAs bring to their employers and clients, the general public and the U.S. economy, as well as leveraged the core values of the profession and the trust that exists between CPAs and their employers or clients.

Working with States to Add a Local Flavor

To increase awareness of CPAs' experience, knowledge and versatility as well as demonstrate support for the public interest, the AICPA worked with the state CPA societies, launching several pilot programs. For example, the Institute worked with the Michigan Society of CPAs on audit committee effectiveness. Additionally, articles were prepared

Market Served:

CPAs and the public they serve

Benefit:

Communities are helped by CPAs' knowledge and expertise

Of Note:

Over 85% of business decision makers and investors agree that the large majority of CPAs are ethical and competent, according to a spring 2003 survey.

on CPA services for the Maryland Association of CPAs to place in the supplement of a regional business publication. Partnering with the Illinois CPA Society, the AICPA helped spotlight sound investment and risk management strategies featuring *Prudent Investment Practices,* written by the Foundation for Fiduciary Studies (www.ffstudies.org) and technically reviewed by the AICPA. The Institute also co-sponsored with the Society of Louisiana CPAs a full-color glossy calendar featuring real-life CPAs with interesting or unusual hobbies. A television public service announcement on tax credits and a video news release on disaster recovery were developed with the Texas Society of CPAs. In a public service effort, the AICPA provided assistance and materials, including supplies of disaster recovery guides to Arizona, California, Florida, Illinois, Indiana, Iowa, Louisiana, Oregon and Texas, where state societies heightened awareness of the guide and arranged for media interviews with local CPAs. Given the phenomenal success of these innovative programs, additional collaborative efforts are being planned for next year.

Reaching Out to the Media

The AICPA embarked on a more aggressive national media outreach, helping the press understand many of the profession's changes and the numerous activities initiated during the past year. One of the major media efforts supported the *360 Degrees of Financial Literacy* initiative. More than 600 radio stations aired news releases reaching a total network audience of 20 million people. Eight television stations, including prime-time spots on Fox and ABC, showed a video news release garnering an audience of over 1.2 million people. In addition, the AICPA secured coverage of the new computer-based Uniform CPA Examination, launch of audit quality centers, and Webcast on fraud held jointly with the FBI. In anticipation of what's on the horizon for members, the Institute has begun developing comprehensive media plans to support a wide range of Institute and member activities.

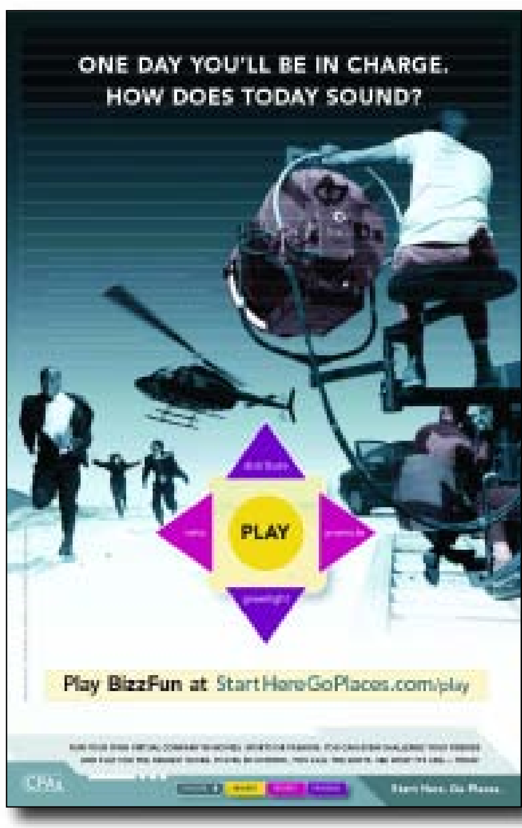
Leading the Next Generation of CPAs

Recruiting Students in Their Environments, in Their Language

Three years into the five-year “Start Here. Go Places.” student recruitment campaign, very gratifying results have emerged. More than 500,000 students have responded to the initiative, more than 160,000 have registered on the campaign’s Web site (www.startheregoplaces.com), and more than 129,000 of them have asked to receive further communications from the AICPA. In fact, accounting enrollment has increased 17% over the past three years. For 2002 – 2003, accounting graduates earning undergraduate degrees were up 6% and Master’s degree graduates climbed 30%. Qualified CPA candidates are definitely in the pipeline.

An interactive online seminar series called *Money Means Business,* a new element of the campaign this year, teaches high school juniors and seniors how various executives and managers in numerous business arenas use money management skills to perform their jobs. More than 10,000 college students learned the importance of accounting and the challenges of forensic accounting by seeing how CPAs solve white-collar crimes through the online game, *Catch Me If You Can*. This game, which will be featured again next year with a new format and exciting cases, recently won a 2004 Stevie Award for the Best Direct Response Campaign. (Educators should visit www.aicpa.org/members/div/career/edu/index.htm regarding classroom use.)

“Start Here. Go Places.” was instituted in addition to many other ongoing campaigns to recruit new CPAs. The AICPA distributes to educators the CPA Information Package (iPACK), a collection of promotional material that includes a video, teacher’s education



Market Served:

Future CPAs

Benefit:

Entry level CPAs have the skills and knowledge demanded in the marketplace

Of Note:

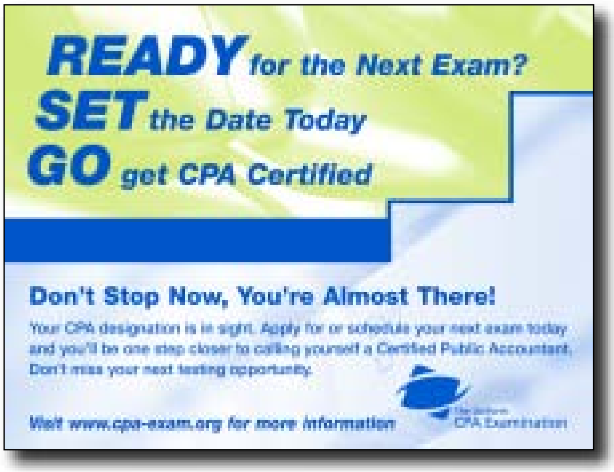
More than 33,000 computerized CPA exam sections were completed between April 5 and August 2.

handbook and student career guides. Two television programs, *Pennywise* and *Business Building Blocks,* funded by the AICPA Foundation and aired on local PBS stations in 2003, focus on teaching middle and high school students about personal finance and the accounting profession. The AICPA also reached students by educating their teachers about personal finances last year through "Financial Smarts for Teachers," a program created by the Jump$tart organization in California and funded by the AICPA Foundation.

CPA Exam Goes Electronic

April 5, 2004, marked the launch of the computer-based Uniform CPA Examination. A joint effort of the AICPA, the National Association of State Boards of Accountancy and Thomson Prometric since 2000, the computerized exam assesses real-world requirements of entry-level CPAs, such as research, analytical, judgment and communication skills — all essential in today's business environment. CPA candidates reap benefits, too. Now they can take the test almost year-round instead of twice a year as before. Candidates have flexible scheduling options and may take the exam at any of Prometric's 300 testing labs around the country.

To facilitate migration to the computer-based format, the AICPA launched a dedicated Web site (www.cpa-exam.org) offering sample tests and tutorials, a new Candidate Bulletin, as well as numerous free Webcasts to help candidates understand the structure of the new 14-hour exam. In addition, a free subscription to professional literature was provided to help those eligible to take the exam. An eight-part series of articles on various topics related to the new exam ran in the *Journal of Accountancy*.






Speaking Up for the Public Interest

Making Business Reporting More Relevant

Investors, creditors, corporate management and other stakeholders want financial information to be more relevant, transparent and timely – and so does the CPA profession. Our Special Committee on Enhanced Business Reporting established a consortium of financial

information users and preparers to explore how to provide a comprehensive, understandable picture of a company's priorities, challenges, accomplishments, risks and financial position (www.aicpa.org/innovation/scebr.htm). The committee developed prototype reporting frameworks for both public companies and private businesses for the consortium to work with as it debates various frameworks to meet the needs of diverse user groups. In the end, it should enable users to see the company through the eyes of management.

Assessing and Managing Risk

Creating and preserving value in a company has much to do with successfully identifying and managing risk factors. The AICPA, as a member of the Committee of Sponsoring Organizations, developed an Enterprise Risk Management framework which was released in September 2004. The framework, which helps management deal effectively with unforeseeable events and minimize negative results, consists of four categories of objectives — strategic, operations, reporting, compliance — and eight interrelated components — internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communications, and monitoring. Upon release, the framework was supplemented with application guidance. Other tools to foster and ease implementation include a Webcast on the framework, small business application guidance, industry-specific tools, and articles in AICPA publications.

Protecting Consumers' Privacy

When consumers purchase goods or provide a business with personal information, they think that data will be protected. Not only may that not be the case, but consumers are unaware that some companies share the information with others. This year, the AICPA teamed with

Market Served:

Investors, clients, consumers, business organizations

Benefit:

Increased trust in financial information and business transactions

Of Note:

More than 80% of consumers say they would stop doing business with a company if they learned the company was using customer information improperly.

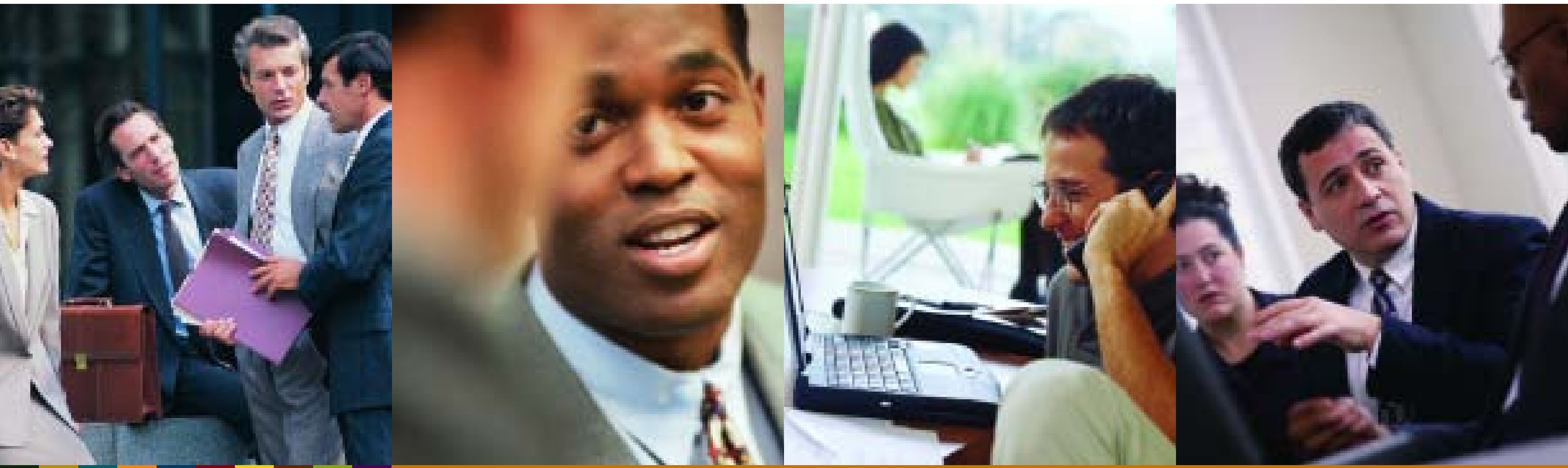
Privacy

the Canadian Institute of Chartered Accountants (CICA) to develop new guidance to help CPAs assist clients in understanding privacy legislation and develop privacy practices. Serving as a tool for CPAs, the AICPA/CICA Trust Services Privacy Framework incorporates concepts from important domestic and international privacy laws, regulations and guidelines. The framework (www.aicpa.org/innovation/baas/ewp/privacy_framework.asp) was part of an expansive privacy initiative, covering both online and off-line transactions involving the collection, use, disclosure and retention of personal information.

Tackling Tax Issues

As soon as news of abusive tax avoidance schemes emerged from Congress and the media, the Institute was outspoken on the need to curtail them. While the AICPA was always clear on this position, the Institute did not support a Senate bill purporting a solution by codifying the economic substance doctrine and raising the tax return standards (for both preparers and taxpayers) to "more likely than not" for all tax positions, stating these provisions would prove counterproductive. The AICPA instead pointed to disclosure, higher non-disclosure penalties, clearer standards for opinion letters and reasonable cause penalty relief, aggressive enforcement, and continued evolution of appropriate solutions by an informed judiciary as effective means to eradicate abusive tax shelter transactions. To help guide members on tax planning issues and ethical tax considerations, the AICPA Tax Executive Committee issued an interpretation of the Statements on Standards for Tax Services offering guidance to address tax shelter transactions and providing a five-step process for presenting tax planning options or reviewing third-party opinions (www.aicpa.org/members/div/tax/index.htm).

With increased media attention this year on outsourcing, many members turned to the AICPA for disclosure guidance. In response, the AICPA developed a paper discussing the three key outsourcing issues — AICPA ethical standards, the Gramm-Leach-Bliley Act privacy provisions, and relevant Internal Revenue Service provisions (www.aicpa.org/download/ethics/outsourcing.pdf). At the same time, the Professional Ethics Executive Committee considered outsourcing issues and released an exposure draft that focused on disclosure, the CPA's responsibilities and confidentiality of client information. After reviewing all comments received, the committee is expected to issue a final rule in late fall 2004.



Helping Our Members Improve Services and Competencies

Honing Your Skills and Knowledge, Gaining a Competitive Edge

CPAs can stay on top of their game in niche areas through three specialty credentials and four technical membership sections. This past year, the governing Council voted to enhance the Personal Financial Specialist (PFS), Certified Information Technology Professional (CITP) and Accredited in Business Valuation (ABV) credentials through dedicated manpower and financial resources. These include formation of the Specialized Communities and Credentialing team encompassing PFS, CITP and ABV focused staff; enhancements to credential holder marketing support programs; revitalization of online resources and home pages; expansion of the technical body of knowledge; and a focus on building value through additional credential holder benefits.

The membership sections supporting these disciplines — Personal Financial Planning (www.aicpa.org/pfp), Information Technology (www.aicpa.org/infotech) and Business Valuation/Forensic & Litigation Services (www.aicpa.org/bvfls) — are also focusing on enhancing value to their members by improving member communications and targeted publications; adding community-building opportunities such as town hall meetings, networking lounges and online discussion forums; increasing advocacy and outreach on industry issues, regulations and legislation; and enhancing exclusive membership section benefits. As with the specialty credentials, the PFP, IT and BV/FLS membership sections also have a new team of dedicated staff from the Specialized Communities and Credentialing team. Tax practitioners can get tools, information and knowledge on challenging tax issues from the Institute's Tax membership section (www.aicpa.org/members/div/tax/index.htm), which also represents AICPA members' interests on Capitol Hill and in regulatory matters.

PFS CPA Personal Financial Specialist

CPA ABV ACCREDITED IN BUSINESS VALUATION

CPA CITP Certified Information Technology Professional

Market Served:

AICPA Members

Benefit:

Increased marketability and improved career planning

Of Note:

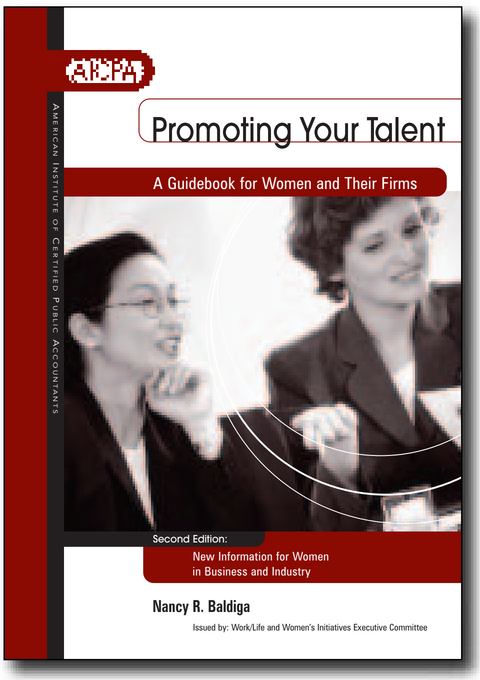
75% of AICPA members perform non-traditional services, such as personal financial planning, information technology consulting and business valuation.

Planning Your Career

Planning your career advancement begins with knowing what your skills are, where you want them to be and how to get them there. To identify skill gaps and develop a learning plan to close them, the AICPA created the Competency Self-Assessment Tool (CAT). This Web-based tool (www.cpa2biz.com/CAT) provides a convenient, confidential and comprehensive means of self-evaluation and career planning for both current and future CPAs and other financial professionals working in audit, taxation, business and industry, and government, as well as forensic and litigation support, antifraud services, business valuation, personal financial planning and eldercare.

Addressing the Needs of Newer CPAs

In June 2004, a two-day forum was held in which AICPA and state CPA society members under age 40, or with less than seven years' experience, expressed their opinions and discussed what they needed from a professional organization. The findings from this New Member Forum will be used to create new programs and initiatives of value to this segment of the membership.



Helping CPAs Juggle Career and Family

CPA work is demanding. But people need personal lives, too. So the AICPA's Work/Life and Women's Initiatives Executive Committee is promoting work environments that provide women CPAs access to top management and leadership positions, as well as help women and men find ways to balance their personal and professional lives (www.aicpa.org/worklife). A new multimedia program, "Work/Life: Striking a Balance," shows how providing flexible work options leads to a more committed and loyal workforce and superior business outcomes. *Promoting Your Talent: A Guidebook for Women and Their Firms* sheds light on the disparity between the percentage of women entering the accounting profession and the percentages of both female new hires and women who are shareholders, partners or firm owners. A summit held at AICPA headquarters in 2003 gathered work/life leaders to share strategies and discuss the value of such arrangements in the workplace. In 2004, the Institute launched a program to help develop and deliver guidelines and best practices about mentoring in the profession.

Enhancing Operations for CPAs

Upgrading Service Through Technology

Collaborating with the state CPA societies, the AICPA set in motion the development of the Member Solutions Partnership (MSP). MSP is a technology solution that will both replace and upgrade various business systems with a goal of providing better service to AICPA and state society members. The first phase of MSP was launched in December 2003.

Member Solutions Partnership
BUILDING STRONGER RELATIONSHIPS

Executives Look to NorthStar Conferences for Knowledge, Networking

NorthStar Conferences LLC, a wholly owned subsidiary of the AICPA, provides business-to-business conferences, specializing in programs on financial, legal and operational management. During the past year, NorthStar produced more than 30 national conferences attended by more than 1,500 top executives across a variety of industries. NorthStar is dedicated to bringing cutting-edge topics and networking opportunities to senior-level executives and managing partners. Among its programs are: *The Law Firm CFO Institute, The Education Industry Finance & Investment Summit, The Accounting Firm Partner Compensation Forum,* and *The Advertising Agency Profitability Forum.*

NORTHSTAR
CONFERENCES LLC

CPA2Biz Achieves Steady Growth with Popular New Offerings

CPA2Biz, our marketing and technology provider, continues to experience steady growth. After two years of improving financial performance, CPA2Biz has attained a new milestone by having income from operations before noncash items. This represents significant progress from prior years and is a result of the marketing and operational improvements that have made a majority of the CPA profession look to CPA2Biz (www.cpa2biz.com) as a key resource.

CPA2Biz this year released new site features and developed a set of core business solutions programs to meet the needs of small and mid-sized public practitioners. More than 200,000 CPAs and financial professionals regularly use the site to search for the latest articles, tools and career resources and to access a selection of more than 1,000 professional products. In fact, approximately 50,000 site searches are conducted on average each month on various technical topics and continuing professional education. In addition, CPA2Biz launched new client-focused Business Solutions offerings, such as the Paychex Partner Program (payroll) and Chase CPA Advantage Program (banking). Just a few months after these initiatives began, more than 8,000 CPA firms from over 47 states are participating in the AICPA Business Solutions Program with more than 1,000 new CPA firms signing up each month.

Market Served:

CPAs around the country

Benefit:

Better access to the products and services CPAs need

Of Note:

CPA2Biz meets financial and operational targets.

Below is a chart showing the growth in CPA2Biz online registered users since July 2001, as well as a variety of recent marketing collateral produced by CPA2Biz. Every year, CPA2Biz produces the AICPA Annual Product Catalog and hundreds of targeted direct mail and e-mail communications to market AICPA publications, CPE, conferences and Webcasts.

Serving Members' Interests

Board of Directors 03 – 04

OFFICERS

2003 – 2004

S. Scott Voynich, CPA
Chairman

Robert L. Bunting, CPA
Vice Chairman

Barry C. Melancon, CPA
President and CEO

Ex Officio
William F. Ezzell, CPA
Immediate Past Chairman

DIRECTORS

For Three Years 2003 – 2006

Ernest A. Almonte, CPA

Randy G. Fletchall, CPA

Hamilton Jordan*

Deborah D. Lambert, CPA

Gary M. Lubin, CPA

Ronald Thompkins, CPA

For Two Years 2003 – 2005

Robert F. Anderson, II, CPA

Terry E. Branstad*

Michael A. Conway, CPA

Bea L. Nahon, CPA

Sandra E. Sloyer, CPA

Jimmy L. Williamson, CPA

For One Year 2003 – 2004

Quinton Booker, CPA

Tom Campbell*

Carl R. George, CPA

David A. Lifson, CPA

Leslie A. Murphy, CPA

Robert J. Ranweiler, CPA

Max L. Stinson, CPA

*Public Members

Member Services

Accounting and Review Services	212.596.6250
Accounting Standards	212.596.6167
Antifraud & Corporate Responsibility Resource Center	www.aicpa.org/antifraud
Audit & Accounting Technical Information Hotline	888.777.7077
Audit Committee Effectiveness Center	www.aicpa.org/audcommctr
Audit Quality Centers	
Center for Public Company Audit Firms	888.817.3277 www.aicpa.org/cpcaf
Employee Benefit Plan	202.434.9253 www.aicpa.org/ebpaqc
Governmental	202.434.9259 www.aicpa.org/gaqc
Auditing Standards	212.596.6032
Competency Self-Assessment Tool	www.cpa2biz.com/CAT
Credentials and Technical Member Sections	201.938.3828
Accredited in Business Valuation credential	abv@aicpa.org
Business Valuation/Forensic & Litigation Services	BV-FLS@aicpa.org
Certified Information Technology Professional credential	citp@aicpa.org
Information Technology Services	infotech@aicpa.org
Personal Financial Specialist credential	pfs@aicpa.org
Personal Financial Planning Services	pfp@aicpa.org
Examinations (Uniform CPA Examination)	www.cpa-exam.org
Financial Literacy Campaign	www.aicpa.org/financialliteracy financialliteracy@aicpa.org
Library (University of Mississippi)	866.806.2133 aicpalib@olemiss.edu
Service Center Operations (9:00 a.m. - 6:00 p.m., ET)	888.777.7077 service@aicpa.org

(updating mailing and e-mailing address information, updating membership information, paying dues, registering for conferences, Web support including CPA2Biz.com, placing/inquiring about purchases or subscriptions, general membership or service inquiries)

PCPS — member section for local, regional CPA firms	800.CPA.FIRM
Political Action Committee	202.434.9276
Professional Ethics, Ethics Hotline	888.777.7077
Tax Services Member Section	202.434.9270
Work/Life and Women's Initiatives	212.596.6226

Sources and Occupations of AICPA Membership

	1994	1999	2000	2001	2002	2003	2004
Total AICPA Membership (excluding student and other affiliates)	318,829	336,635	337,454	336,081	337,867	335,111	334,635
Public Accounting	41.3%	39.5%	39.4%	38.9%	38.8%	38.4%	39.0%
Business & Industry	40.9%	46.2%	46.4%	46.6%	47.4%	47.4%	41.6%
Education	2.4%	2.4%	2.3%	2.3%	2.3%	2.4%	2.3%
Government	4.4%	4.3%	4.2%	4.1%	4.0%	4.1%	3.9%
Retired & Miscellaneous	11.0%	7.6%	7.7%	8.1%	7.5%	7.7%	13.2%
Membership in Public Practice	131,630	133,036	132,943	130,870	130,995	128,730	130,343
Firms with one member	23.5%	22.8%	21.8%	21.6%	21.3%	21.4%	22.6%
Firms with 2–9 members	36.5%	34.7%	34.1%	34.1%	33.9%	34.1%	29.9%
Firms with 10 or more members, except the 25 largest firms	19.9%	21.6%	22.8%	22.8%	24.0%	24.5%	26.0%
25 largest firms	20.1%	20.9%	21.3%	21.5%	20.8%	20.0%	21.5%

Management's Discussion and Analysis

Fiscal 2004 can best be described as a time of renewal for the CPA profession as well as for the AICPA. The initiatives undertaken have demonstrated the AICPA's commitment to providing innovative new services to its members in the areas of small business issues, emphasis on enhanced audit quality, relations with legislators and regulators, and image enhancement. The formation of a series of new audit quality centers has been one of the most vital activities of the AICPA during the past year. The aim is to establish quality guidelines and information centers for CPA firms wishing to enhance their audits of public companies, government entities, or employee benefit plans.

Since many AICPA members work in a private company environment and work with private company financial reporting, the AICPA established the Private Company Financial Reporting Task Force to explore potential concerns. In addition, the Auditing Standards Board was restructured to better address the needs of non-public companies, while working cooperatively with the newly formed Public Company Accounting Oversight Board (PCAOB) in an effort to ensure any differences in public and private company auditing standards are substantive and not just for the sake of differences. The AICPA partnered with the U.S. Department of Labor to provide a series of seminars to educate small business plan sponsors and other fiduciaries about their obligations under the Employee Retirement Income Security Act. Another AICPA initiative tailored to private companies involved providing guidelines to firms on how to apply PCAOB standards to audits of private companies, not-for-profits, and governmental entities.

In April 2004, the AICPA successfully launched the computerized CPA Examination. More than 37,000 Exam sections were completed in the first four months. The computerized Exam makes it possible to better evaluate a candidate's skills on many levels. The AICPA is providing tools and information, including a series of free Webcasts, to enable CPA candidates to grasp the concept of a computerized exam. Under an agreement between the AICPA and the National Association of State Boards of Accountancy, the AICPA is to break even with regard to costs incurred in developing, maintaining and providing the Exam. Through July 31, 2004, approximately $29.5 million of costs have been incurred, all of which were initially deferred. Since the April 2004 launch, the AICPA recognized revenue of $1.6 million. Accordingly, costs equal to the revenue recognized in the current year have been expensed. At July 31, 2004, the balance of $27.9 million is included in deferred costs in the statement of financial position.

The Institute has actively reached out to extend the profession's message to high school and early college students for recruitment, as well as for educational purposes. During the year, the AICPA Foundation awarded more than $600,000 in scholarships to minority students to enter the profession and the professorate. The Foundation also funded two new television programs aimed at teaching middle and high school students about personal finance and the accounting profession, as well as publishing a disaster recovery guide, produced in conjunction with the National Endowment for Financial Education and distributed through local American Red Cross chapters.

During the year, a new consumer-focused financial literacy program also was introduced. The program, called *360 Degrees of Financial Literacy*, leverages the knowledge of CPAs along with the efforts of thousands of CPAs at the grassroots level to help elevate the financial understanding of Americans.

As a by-product of the events of recent years in corporate financial reporting, the AICPA collaborated with the Federal Bureau of Investigation on a number of initiatives designed to share information that will help CPAs and the Bureau detect and prevent corporate financial fraud. The initiatives included a free interactive Webcast and placement of articles dealing with fraud detection in AICPA publications.

Recognizing the importance of business credentials in today's environment, the AICPA Council voted to enhance the profession's three specialty credentials — Personal Financial Specialist, Certified Information Technology Professional and Accredited in Business Valuation. Plans are underway for a revitalized Web presence for these credentials.

The AICPA Career Center and Catalyst — a leading research and advisory organization which works to advance women in business — are jointly implementing tips and action steps to help companies recruit, retain and advance top financial talent, and provide professional women with tools to reach their full potential.

CPA2Biz, the AICPA's marketing and technology provider, has continued to add significant new features to its Web site over the past year. This has helped drive its steady growth, resulting in over 200,000 CPAs and financial professionals using the site on a regular basis. In addition, CPA2Biz launched new client-focused business offerings such as payroll and banking partner programs, which now have participation from more than 8,000 CPA firms. Each year, CPA2Biz also produces AICPA catalogs and hundreds of targeted direct mail and e-mail communications to market the AICPA's publications, CPE, conferences and Webcasts.

The Member Solutions Partnership (MSP), which will create and upgrade business systems (both technology and process-driven) to better serve AICPA and state society members, was launched during this year. The first phase of the MSP, a collaborative effort between the AICPA and the state societies, was launched in December 2003.

In Fiscal 2004, the AICPA and its 100% subsidiary NorthStar Conferences, LLC had an excess of revenue over expenses of $5.4 million, before the consolidation of CPA2Biz. Realized and unrealized gains on marketable securities totaled $5.1 million for the year.

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 increase in the minimum pension liability 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% in 2002 to 6.25% in 2003 as well as the actual returns on plan assets during the last three years. During the year ended July 31, 2004, the minimum pension liability was reversed as prescribed by SFAS No. 87 since the plan assets combined with the accrued pension liabilities exceed the accumulated benefit obligation.

The consolidated financial statements of the AICPA include CPA2Biz assets, liabilities and operations. While CPA2Biz incurred net losses and negative cash flow in the past, CPA2Biz achieved a new milestone in the current year by having income from operations before noncash items. 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.

In Fiscal 2004, operating expenses on a combined basis [AICPA, CPA2Biz, NorthStar Conferences and the related organizations (the Institute)] exceeded operating revenue by approximately $3.8 million as compared to $7.1 million in Fiscal 2003, 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 $5.8 million for Fiscal 2004, compared to a net gain of $3.1 million in Fiscal 2003.

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 the CPA2Biz equity instruments it held in exchange for the common stock that CPA2Biz held in CapPro in a noncash transaction. The financial statements for 2003 are presented to reflect CapPro as a discontinued operation. The loss from the discontinued operations was $727,000 in 2003. This loss is offset by a gain on the disposal of $6.3 million.

Operating revenue on a combined basis was $157.3 million in 2004 compared to $164.9 in 2003, a decrease of $7.6 million or 4.6%. A significant portion of this revenue decline is attributable to the change from the paper-based Exam which was given twice a year to a computer-based Exam which is given throughout the year. This change has resulted in a shift in the timing of individuals sitting for the Exam. The balance of the revenue decline is due to slightly lower dues, publications and software sales, and contributions offset by higher conference revenue. As a result of the Sarbanes-Oxley Act, the SEC Practice Section ceased operations resulting in lower dues revenue and the Accounting Research Association stopped raising funds within the accounting profession to fund the Financial Accounting Foundation.

Operating expenses on a combined basis were $161.2 million in 2004 compared to $172.0 million in 2003, a decrease of $10.8 million or 6.3%. The decrease is due to lower CPA Examination costs included in the statement of activities consistent with the breakeven agreement discussed previously and lower general management costs as a result of the reversal of the additional pension liability. The balance of the decrease is a combination of lower CPA2Biz expenses, SEC Practice Section expenses, and other expenses incurred in the prior year in connection with the various alleged audit failures offset by higher technical services including the Special Committee on Enhanced Business Reporting, the renewed focus on the credentials, and the formation of the audit quality centers.

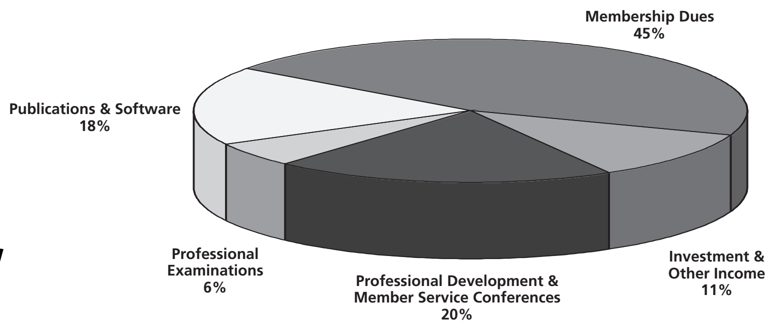
Cash used in operating activities was $2.7 million in 2004 as compared to *cash provided by operating activities* of $5.4 million in 2003. Cash used in investing activities was $16.7 million in 2004 and $19.7 million in 2003 due primarily to the CPA Exam and MSP projects. Cash provided by financing activities totaled $17.3 million in 2004 and $8.1 million in 2003 due primarily to proceeds from long-term debt used to fund the development of the computerized Exam and an outstanding line of credit as of July 31, 2004 which was fully repaid in August 2004. As a result of these activities, net cash decreased in 2004 by $2.1 million versus $6.3 million in 2003.

At July 31, 2004, the AICPA and related organizations have a strong financial position with excellent liquidity. Their current liquidity along with the anticipated breakeven budget for 2005 should be sufficient to finance planned operations. Management of CPA2Biz believes its operations will also provide sufficient cash flow for the next twelve months. CPA2Biz is committed to its goals of maintaining positive cash flow and establishing profitable operations.

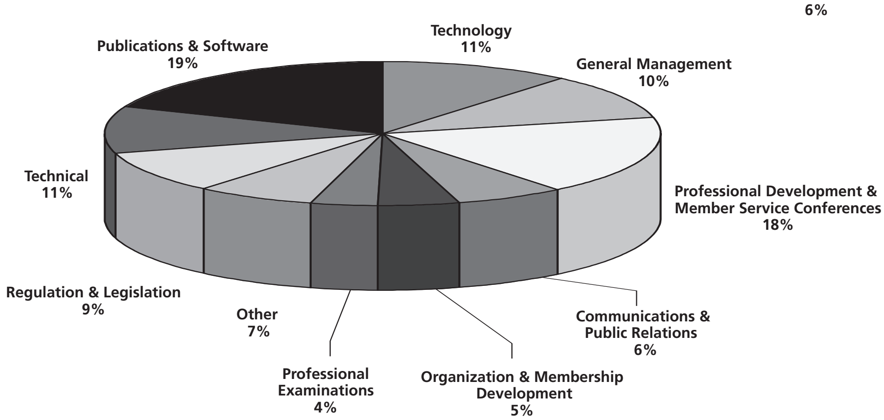
An adequate fund balance is necessary for investment in the profession and our services to members and for weathering difficult times that may be encountered. As of July 31, 2004, the AICPA's net assets to net annual revenue ratio is 23.6% (excluding CPA Exam gross margin due to the breakeven agreement). This ratio, which is computed based on the financial results of the AICPA and NorthStar Conferences before the consolidation of CPA2Biz, is within the 20-25% targeted goal established by the AICPA Board of Directors.

Throughout the year, we have been adjusting our priorities to adapt to the changing needs of our members. We are delighted that we have been able to do so in a fiscally responsible manner.

Operating Revenue by Activity



Operating Expenses by Activity



Management's Responsibilities for Financial Statements and Internal Control

Financial Statements

The financial statements of the American Institute of Certified Public Accountants and related organizations (the Institute) were prepared by management, which is responsible for their reliability and objectivity. The statements have been prepared in conformity with 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, 2004, its internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition met those criteria.

J.H. Cohn LLP was also engaged to report separately on the Institute's assessment of its internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition.

The report of the independent public accountants follows this statement.

Barry C. Melancon
President and CEO

Clarence A. Davis
Chief Operating Officer

Reports of Independent Public Accountants

To the Members of the American Institute of Certified Public Accountants

We have 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, 2004, 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, 2004, is fairly stated, in all material respects, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

J. H. Cohn LLP

Roseland, New Jersey
October 21, 2004

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, 2004 and 2003, 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, 2004 and 2003, and the changes in their net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

J. H. Cohn LLP

Roseland, New Jersey
October 21, 2004

Financial Statements
July 31, 2004 and 2003

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND RELATED ORGANIZATIONS

COMBINED STATEMENTS OF FINANCIAL POSITION
JULY 31,

	2004	2003
	($000)	
ASSETS:		
Cash	**$ 2,919**	$ 4,993
Marketable securities	**86,310**	85,056
Accounts and notes receivable (less an allowance for doubtful accounts: 2004, $3,174,000; 2003, $1,308,000)	**9,986**	11,595
Inventories	**1,277**	797
Deferred costs and prepaid expenses	**47,669**	37,754
Goodwill	**13,434**	13,434
Other intangible assets	**4,700**	7,142
Furniture, technology and leasehold improvements, net	**10,780**	10,518
Totals	**$177,075**	$171,289
LIABILITIES:		
Accounts payable and other liabilities	**$ 48,417**	$ 40,912
Advance dues	**27,427**	42,371
Unearned revenue	**11,826**	13,549
Line of credit	**15,000**	
Long-term debt	**15,122**	12,858
Deferred rent	**16,547**	13,534
Deferred employee benefits	**20,419**	21,470
Total liabilities	**154,758**	144,694
PREFERRED STOCK AND NET ASSETS:		
Preferred stock of C2B	**82,354**	80,916
Net assets:		
Unrestricted:		
AICPA and Related Organizations	**40,495**	35,276
C2B	**(101,180)**	(90,245)
Total unrestricted	**(60,685)**	(54,969)
Permanently restricted	**648**	648
Total net assets	**(60,037)**	(54,321)
Total preferred stock and net assets	**22,317**	26,595
Totals	**$177,075**	$171,289

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 YEARS ENDED JULY 31,

	2004	2003
	($000)	
CHANGES IN UNRESTRICTED NET ASSETS:		
Operating revenue:		
Dues	**$ 71,527**	$ 72,582
Publications and software	**27,981**	29,550
Professional development and member service conferences	**31,351**	30,927
Investment and sundry income	**16,645**	16,992
Professional examinations	**8,835**	12,777
Contributions	**985**	2,050
Total operating revenue	**157,324**	164,878
Operating expenses:		
Program services:		
Publications and software produced for sale	**28,559**	27,832
Professional development and member service conferences	**28,658**	31,543
Member services:		
Regulation and legislation	**15,182**	17,606
Technical	**17,068**	14,038
Publications	**1,842**	2,377
Other	**7,239**	8,493
Professional examinations	**6,058**	9,804
Communications and public relations	**10,090**	9,018
Support and scholarships	**3,305**	3,041
Assistance programs	**706**	805
Supporting activities:		
General management	**16,771**	22,886
Organization and membership development	**7,900**	8,134
Technology	**17,794**	16,429
Total operating expenses	**161,172**	172,006
Deficiency of operating revenue over expenses	**(3,848)**	(7,128)
Discontinued operations		5,602
Gains (losses) on marketable securities:		
Realized	**1,625**	(1,664)
Unrealized	**4,144**	4,799
Totals	**5,769**	3,135
Change in unrestricted net assets before minority interest	**1,921**	1,609
Minority interest, inclusive of preferred stock dividends	**(7,637)**	(7,440)
Change in unrestricted net assets	**(5,716)**	(5,831)
Unrestricted net assets, beginning of year	**(54,969)**	(49,138)
Unrestricted net assets, end of year	**$(60,685)**	$ (54,969)

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

COMBINED STATEMENTS OF PREFERRED STOCK AND NET ASSETS
JULY 31,

($000)

	AICPA and Related Organizations	C2B	TOTAL
2004:			
Preferred stock		**$ 82,354**	**$ 82,354**
Net assets:			
Unrestricted	**$40,495**	**(101,180)**	**(60,685)**
Permanently restricted	**648**		**648**
Total net assets	**41,143**	**(101,180)**	**(60,037)**
Totals	**$41,143**	**$ (18,826)**	**$ 22,317**
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

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

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JULY 31,

	2004	2003
	($000)	
INCREASE (DECREASE) IN CASH:		
Operating activities:		
Cash received from members and customers	**$ 138,558**	$162,520
Interest and dividends received	**3,091**	2,358
Cash paid to suppliers, employees and others	**(142,749)**	(158,743)
Interest paid	**(1,004)**	(249)
Income taxes paid	**(578)**	(535)
Net cash provided by (used in) operating activities	**(2,682)**	5,351
Investing activities:		
Payments for purchase of amortizable assets	**(16,209)**	(18,424)
Payments for purchase of furniture and technology	**(4,961)**	(762)
Payments for purchase of marketable securities	**(51,630)**	(42,370)
Investment in and advances to SSLLC		(300)
Cash retained by CapPro upon disposition		(1,346)
Proceeds from sale of marketable securities	**56,144**	43,457
Net cash used in investing activities	**(16,656)**	(19,745)
Financing activities:		
Proceeds from line of credit, net	**15,000**	
Proceeds of long-term debt	**3,000**	8,491
Repayment of long-term debt	**(736)**	(433)
Purchase of treasury stock		(6)
Net cash provided by financing activities	**17,264**	8,052
Net decrease in cash	**(2,074)**	(6,342)
Cash, beginning of year	**4,993**	11,335
Cash, end of year	**$ 2,919**	$ 4,993
RECONCILIATION OF CHANGE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Change in unrestricted net assets	**$ (5,716)**	$ (5,831)
Adjustments to reconcile change in unrestricted net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	**10,867**	12,373
Loss on abandonment of tenant improvements	**252**	
(Gain) loss on sale of marketable securities	**(1,625)**	1,664
Amortization of unearned revenue	**(544)**	(532)
Gain on sale of CapPro		(6,329)
Unrealized gain on marketable securities	**(4,144)**	(4,799)
Minority interest	**7,637**	7,440
Noncash compensation		11
Equity in and write-down of investment in SSLLC		300
Provision for:		
Losses on accounts and notes receivable	**1,025**	723
Obsolete inventories	**(168)**	217
Purchase commitment		(125)
Deferred rent	**4,034**	(1,380)
Deferred employee benefits	**902**	3,980
Changes in operating assets and liabilities:		
Accounts and notes receivable	**584**	1,735
Inventories	**(312)**	(28)
Deferred costs and prepaid expenses	**(39)**	645
Accounts payable and other liabilities	**1,301**	(2,945)
Advance dues	**(14,944)**	2,096
Unearned revenue	**(1,179)**	(3,328)
Deferred employee benefits	**(613)**	(536)
Total adjustments	**3,034**	11,182
Net cash provided by (used in) operating activities	**$ (2,682)**	$ 5,351

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

Notes to Combined Financial Statements
July 31, 2004 and 2003

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 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. C2B is 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 10). NorthStar provides professional development programs and conferences for various industries. The mission of the ARA is to provide funds for studies and research in regard to principles and standards of the accounting profession (see Note 14). 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 11).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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

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

Contributions are recorded as unrestricted, temporarily restricted or permanently restricted when received depending on the existence and/or nature of any donor restrictions. 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, 2004, 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.

Revenue from dues is 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.

Costs of promotions and advertising are expensed as incurred. Total promotion and advertising expenses were $9,881,000 and $12,884,000 for the years ended July 31, 2004 and 2003.

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.

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.

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.

The AICPA entered into a third-party agreement that provides for the AICPA to break-even with regard to certain external and internal costs incurred in developing, maintaining and providing the computerized Uniform CPA Examination (Examination). Accordingly, such costs have been deferred and are reflected in the accompanying statement of financial position net of revenue recognized (see Note 8).

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 whereby compensation expense for stock options issued was only reflected 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).

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 2003 financial statements have been reclassified to conform with the current year's presentation.

3. MARKETABLE SECURITIES

Marketable securities consist of:

	2004		2003
		($000)	
U.S. Treasury obligations	**$14,245**		$14,382
Bonds and notes	**23,916**		28,471
Equities	**48,149**		42,203
Total fair value	**86,310**		85,056
Unrealized gains (losses)	**3,032**		(1,112)
Total cost	**$83,278**		$86,168

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

Investment income consists of:

	2004		2003
		($000)	
Dividends and interest	**$ 3,113**		$ 2,378
Realized gains (losses)	**1,625**		(1,664)
Unrealized gains	**4,144**		4,799
	$ 8,882		$ 5,513

4. INVENTORIES

Inventories consist of:

	2004		2003
		($000)	
Paper and material stock	**$ 188**		$ 82
Publications in process	**160**		182
Printed publications and course material	**929**		533
	$ 1,277		$ 797

5. FURNITURE, TECHNOLOGY AND LEASEHOLD IMPROVEMENTS

Furniture, technology and leasehold improvements consist of:

	2004		2003
		($000)	
Furniture	**$ 8,545**		$ 7,931
Technology	**32,111**		30,864
Leasehold improvements	**13,780**		15,790
	54,436		54,585
Less accumulated depreciation and amortization	**43,656**		44,067
	$10,780		$10,518

6. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets are as follows:

	2004		2003
		($000)	
Goodwill	**$13,434**		$13,434
Other intangible assets:			
Trade name	**$ 1,783**		$ 1,783
Unrecognized prior service costs (Note 9)			1,313
Contracts and technology	**5,645**		5,645
Less accumulated amortization	**2,728**		1,599
Contracts and technology, net	**2,917**		4,046
	$ 4,700		$ 7,142

Amortization expense on intangible assets with definite lives amounted to approximately $1,129,000 and $1,082,000 for the years ended July 31, 2004 and 2003. Estimated amortization expense in each of the years subsequent to July 31, 2004 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	29
Goodwill written-off related to sale of Capital Professional Advisors, Inc. (CapPro — see Note 10)	(4,799)
Balance, July 31, 2003	$ 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.

7. LONG-TERM DEBT

Long-term debt consists of the following:

	2004		2003
		($000)	
AICPA (A)	**$ 1,200**		$ 1,200
AICPA (B)	**10,000**		7,000
AICPA (C)	**382**		1,118
C2B (D)	**3,540**		3,540
	$15,122		$12,858

(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 $613,000.

(B) Noninterest bearing note payable to Prometric, Inc. (Prometric — see Note 8).

(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 $60,000. The AICPA has no obligation under the note.

Based on borrowing rates currently available, the fair value of long-term debt at July 31, 2004 and 2003 approximates the carrying value.

Principal amounts due under the above obligations in each of the five years subsequent to July 31, 2004 and thereafter are as follows:

YEAR ENDING JULY 31,

	($000)
2005	$2,348
2006	2,387
2007	2,867
2008	2,987
2009	1,667
Thereafter	2,866

8. COMMITMENTS AND CONTINGENCIES

Computerization of the Uniform CPA Examination

In connection with the 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 delivered the Examination in a computer-based format in April 2004. NASBA developed and maintains 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.

The AICPA receives fees through NASBA based upon the number of examinations taken. The agreement provides for the AICPA to break-even with regard to costs incurred in developing and maintaining the Examination. Through July 31, 2004, approximately $29,527,000 of costs have been incurred, all of which were initially deferred. During the year ended July 31, 2004, the AICPA recognized revenue of approximately $1,636,000. Accordingly, costs equal to the revenue recognized in the current year have been expensed. At July 31, 2004, the balance of $27,891,000 is included in deferred costs in the accompanying statement of financial position.

Prometric has provided the AICPA with a $10,000,000 interest-free line of credit to facilitate the conversion of the Examination from a paper-based to a computer-based format. 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 commencement; however, such term can be extended through 2014 based upon certain performance criteria.

Fees are payable to Prometric by the AICPA in accordance with a tiered volume based pricing schedule. At the conclusion of the first year of testing (April 2005), the actual number of test hours will be calculated to determine the final quantity adjusted pricing for the year. The AICPA currently projects it may be required to pay up to $3,500,000 in fiscal 2005, based upon the volume to date and fiscal 2005 projected volume. The full $3,500,000 plus interest is recoverable from future fees under the terms of the agreement.

The AICPA has entered into a noncancelable servicing agreement with a third party who provides hosting, network and data availability services. The servicing agreement requires payments of approximately $253,000 annually through 2006 and $211,000 in 2007.

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 $16,547,000 (inclusive of landlord reimbursement for tenant improvements and other costs of $4,000,000 related to the New York City office relocation) and $13,534,000 as of July 31, 2004 and 2003. In connection with the New York City office relocation, the AICPA recorded $252,000 for abandoned tenant improvements, net of deferred rent.

Minimum rental commitments on noncancelable real estate and equipment leases in effect as of July 31, 2004, exclusive of future escalations for real estate taxes and building operating expenses, are:

YEAR ENDING JULY 31,

	($000)
2005	$10,829
2006	9,887
2007	9,105
2008	8,627
2009	8,619
Years subsequent to 2009	41,251
	$88,318

Rental expense for the years ended July 31, 2004 and 2003 was $12,503,000 and $13,413,000, respectively.

During 2000, the AICPA entered into a noncancelable sublease. The total of minimum rentals to be received in the future under this sublease, which expires in 2012, amounts to $11,814,000 as of July 31, 2004. Sublease income amounted to $1,398,000 for each of the years ended July 31, 2004 and 2003.

Line of Credit

The AICPA has available a line of credit with a bank for short-term borrowings of up to $20,000,000, pursuant to which borrowings of $15,000,000 were outstanding at July 31, 2004 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, 2004, the account has securities with a market value of $41,000,000. The line of credit expires on January 31, 2005. The amounts outstanding under the line were fully repaid in August 2004.

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 sought to enjoin the defendants from continuing the operations of C2B. During 2004, the matter was favorably settled.

From time-to-time the Institute is a defendant in actions arising in the ordinary course of business. In the opinion of management, such litigation will not have a material adverse effect on the Institute's financial condition or change in net assets.

9. 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,	
	2004	2003
	($000)	
Projected benefit obligation	**$67,815**	$68,531
Plan assets available for benefits at fair value	**52,208**	48,320
Projected benefit obligation in excess of plan assets at end of year	**$15,607**	$20,211
Accrued pension cost	**$(8,189)**	$ (9,128)

Net pension expense was $2,201,000 and $615,000 for the years ended July 31, 2004 and 2003. Benefits paid amounted to $3,436,000 and $2,329,000. There were no employer contributions in 2004 and 2003.

Economic assumptions:	**2004**	2003
Discount rate	**6.50%**	6.25%
Expected long-term rate of return on plan assets	**8.50%**	8.50%
Rate increase in future compensation levels	**4.00%**	4.00%

Estimated future benefit payments reflecting expected future service for each of the five years subsequent to July 31, 2004 and in the aggregate for the five years thereafter are as follows:

YEAR ENDING JULY 31,

	($000)
2005	$ 2,890
2006	2,990
2007	3,120
2008	3,220
2009	3,370
2010–2014	19,750

	Target Allocation	Percentage of Plan Assets at May 1,	
	2005	**2004**	2003
Plan assets:			
Domestic equity securities	42–53%	**48%**	43%
International investments	14–18%	**17**	13
Fixed income	30–38%	**32**	42
Other	4–7%	**3**	2
		100%	100%

The target allocation of assets is as outlined above. This is intended to provide for growth of capital with a moderate level of volatility. The expected long-term rate of return for the plan's assets is based on the expected return of each of the asset categories, weighted based on the median of the target allocation for the class. All investments are chosen with care, skill, prudence and due diligence. A listing of permitted and prohibited investments is maintained in the Institute's Statement of Investment Policy approved by the Board of Directors and dated May 2004.

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* (SFAS No. 87). 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 2003 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.

During the year ended July 31, 2004, the minimum pension liability was reversed as prescribed by SFAS No. 87. The reversal occurs when the plan assets and accrued pension liabilities exceed the accumulated benefit obligation.

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 $1,044,000 and $1,025,000 for the years ended July 31, 2004 and 2003.

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, 2004 and 2003 was $673,000 and $1,487,000.

The accumulated postretirement obligation as of May 1, 2004 and 2003 was $10,948,000 and $11,926,000. Accrued postretirement benefit costs included in the accompanying statements of financial position were $12,488,000 and $12,412,000.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 6.5% in 2004 and 2003. The weighted average health care cost trend rate used in measuring the postretirement benefit expense has been changed from 8.5% graded down to 5.5% by .5% per year to 12.0% graded down to 5.0% by 1.0% per year. These changes result in a net increase of $532,000 in the plan's liability.

As a result of the Institute's adoption of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 which was signed into law in December 2003, the plan's liability as of April 30, 2004 decreased by $1,430,000 from the inclusion of the Medicare Part D subsidy. The subsidy relates to those who retired prior to May 2003.

The Institute funds the cost of these plans on the cash basis and in 2004 and 2003 paid $610,000 and $549,000.

10. CPA2BIZ, INC.

Pursuant to the terms of an agreement that originally became effective July 2002 and was subsequently amended on June 22, 2004 for certain terms and conditions (the 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 Agreement. The 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 leases office space from the AICPA in New York and New Jersey at an annual rental of approximately $219,000. 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, 2004, the outstanding principal balance of $4,344,000 and accrued interest thereon of $724,000 have been eliminated.

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, 2004, 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.

The following table summarizes the common shares issued by C2B during the years ended July 31, 2004 and 2003:

	Number of Shares	Common Stock	Additional Paid-in Capital
Balance, August 1, 2002	50,737,624	$507,377	$5,103,026
Disposition of CapPro	(553,499)	(5,535)	(188,190)
Balance, July 31, 2003 and 2004	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, 2004 and 2003, C2B accrued, but did not pay, $4,599,942 and $4,349,964 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 $1,437,768 and $1,341,882 during the years ended July 31, 2004 and 2003. The warrants will expire upon conversion or redemption of the Series A Preferred Stock.

The Series B Preferred Stock, which was issued in connection with the acquisition of Rivio, Inc. (Rivio), 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 each of the years ended July 31, 2004 and 2003, C2B has accrued, but not paid $1,599,318 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, 2004 and 2003 is $19,517,171 and $13,317,911 related to accrued, but unpaid, preferred stock dividends. Minority interest for the years ended July 31, 2004 and 2003 is net of preferred stock dividends.

In September 2000, C2B established a stock option plan (the C2B Plan). In connection with the Rivio acquisition, 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. 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 year ended July 31, 2003 was $14,857. 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, 2004.

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, 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
Cancelled	**(81,270)**	**1.05**		
Outstanding at July 31, 2004	**2,456,746**	**1.28**	**2,371,138**	**1.16**

The following table summarizes information about stock options outstanding under the Plans at July 31, 2004:

	Options Outstanding		
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$0.37 – $0.39	1,164,111	7.5 years	$0.38
0.44 – 0.46	53,470	6.3 years	0.45
0.95 – 0.97	812,216	6.3 years	0.96
4.25 – 4.27	324,000	6.5 years	4.26
5.10 – 5.12	102,949	7.5 years	5.11
	2,456,746		$1.28

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 $177,000 and $163,000 for the years ended July 31, 2004 and 2003. 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 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 2003 financial statements reflect CapPro as a discontinued operation. 2003 operating results of CapPro are summarized as follows:

	($000)
Net sales	$ 4,414
Loss from discontinued operations	$ (727)
Gain on disposal	6,329
Discontinued operations	$ 5,602

Summarized consolidated financial information of C2B as of and for the years ended July 31, 2004 and 2003 is as follows:

	2004	2003
	($000)	
Total assets	**$19,647**	$25,086
Total liabilities	**$32,969**	$29,065
Preferred stock	**82,354**	80,916
Common stockholders' deficiency	**(95,676)**	(84,895)
	$19,647	$25,086
Revenue	**$13,327**	$14,684
Net loss	**$ (3,144)**	$ (3,202)

C2B has incurred net losses and negative cash flows from operations in the past. As of July 31, 2004, C2B has a common stockholders' deficiency of approximately $95,676,000, which has been primarily funded by the preferred stockholders. At July 31, 2004, C2B had working capital of approximately $805,000, inclusive of a receivable of approximately $1,905,000 from the AICPA which has been eliminated in combination. C2B's unrestricted cash at July 31, 2004 was approximately $1,041,000.

Management of C2B believes that its operations will provide sufficient cash flow for the next twelve months. C2B is committed to its goals of maintaining positive cash flow and of establishing profitable operations. If C2B experiences a material shortfall versus its plan for the next fiscal year, it expects to take all appropriate actions to ensure the continued operation of its business and to mitigate any negative impact on its profitability and cash reserves. C2B believes that it has a range of expense reduction actions it can take to achieve this outcome.

At July 31, 2004, 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 $86,000,000 of previously recorded losses.

At July 31, 2004, C2B has deferred tax assets of approximately $51,000,000 which arise primarily from net operating loss carryforwards for Federal income tax purposes of approximately $124,000,000 expiring through 2024 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, 2004. 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.

11. 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.

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 years ended July 31, 2004 and 2003, $97,000 and $1,201,000 were repaid and, accordingly, $97,000 and $404,000 were recognized as interest income.

Summarized financial information of SSLLC as of and for the years ended July 31, 2004 and 2003 is as follows:

	2004	2003
	($000)	
Total assets	**$ 442**	$ 705
Total liabilities	**702**	395
Members' equity (deficiency)	**$ (260)**	$ 310
Net loss	**$ (570)**	$ (807)
AICPA's share of net loss	**$ (285)**	$ (404)

At July 31, 2002, SSLLC had not had operating revenue since May 2002. Accordingly, at July 31, 2002, the AICPA wrote down its equity investment of approximately $335,000 in SSLLC to zero. 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. The AICPA's investment in SSLLC remains at zero as of July 31, 2004.

In December 2003, SSLLC and the AICPA implemented an enterprise resource software package. The software package provides the AICPA and participating state societies with a uniform operations platform. In connection therewith, SSLLC will provide software maintenance, hosting and other support services for the AICPA and SSNI. Included in the statement of operations of SSLLC for the year ended July 31, 2004 are reimbursements from the AICPA of $2,071,000 for certain of SSLLC's expenses related to the aforementioned software package.

12. NET ASSETS

Net assets and changes in net assets for the years ended July 31, 2004 and 2003 follow:

	Balance, August 1, 2002	Increase (Decrease)	Balance, July 31, 2003	**Increase (Decrease)**	**Balance, July 31, 2004**
			($000)		
Unrestricted:					
AICPA	$ 23,370	$ 2,964	$ 26,334	**$ 4,971**	**$ 31,305**
C2B	(80,720)	(9,525)	(90,245)	**(10,935)**	**(101,180)**
ARA	430	536	966	**81**	**1,047**
Benevolent Fund	4,019	279	4,298	**361**	**4,659**
Foundation	3,763	(85)	3,678	**(194)**	**3,484**
	(49,138)	(5,831)	(54,969)	**(5,716)**	**(60,685)**
Restricted:					
Foundation:					
Library Fund	648		648		**648**
	$(48,490)	$ (5,831)	$(54,321)	**$ (5,716)**	**$ (60,037)**

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

13. SUPPLEMENTARY CASH FLOW INFORMATION

Noncash investing and financing activities for the year ended July 31, 2003 follows:

	($000)
Disposition of CapPro	$ 7,694

14. ARA

The ARA's mission is to provide funds for studies and research in regard to principles and standards of the accounting profession. Through 2002, the ARA made annual best efforts commitments to raise funds for the Financial Accounting Foundation (FAF) to support the work of the Financial and Governmental Accounting Standards Boards from sources within the accounting profession. Effective with the passage of the Sarbanes-Oxley Act on July 30, 2002, the funding of the FASB is provided through payments by Securities and Exchange Commission (SEC) registrants.
The ARA did not fund any research during the year ended July 31, 2004. The ARA's Board of Trustees is exploring alternative ways of continuing to fulfill its mission.

15. DIVISION FOR CPA FIRMS

Effective May 1, 2002, the Public Oversight Board (POB) terminated its existence. The executive committee of the SEC Practice Section (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 (TOS — 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 (PCAOB). The SECPS, the AICPA and the TOS reached an informal agreement with the PCAOB that, as the PCAOB began to implement the provisions of the Sarbanes-Oxley Act, it was in the public interest for the SECPS self-regulatory programs to continue throughout 2003 and for the TOS to oversee those programs. The SECPS and the AICPA discontinued their self-regulatory programs covering the audits of public companies as of December 31, 2003, and the TOS terminated its existence as of that date, except for the oversight of the Quality Control Inquiry Committee activities which continued through January 15, 2004.

The Center for Public Company Audit Firms (CPCAF) commenced activities on January 1, 2004 as a voluntary membership organization for firms that audit or are interested in auditing public companies. The CPCAF's purpose is to promote improvement in the quality of audits of public companies through the communication of SEC and PCAOB developments and the development of technical and educational information for members, and to work with regulators on issues that impact the performance and quality of audits of public companies.

PCPS/Partnering for CPA Practice Success, the AICPA Alliance for CPA Firms (PCPS) is a community of CPA firms committed to make practicing CPAs and their firms successful. PCPS offers members valuable practice management resources and provides practicing CPAs and their firms with a voice in the profession.

The net assets of the aforementioned are included in the AICPA's unrestricted net assets.

AICPA

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