2005

AICPA annual report 2004-05; America counts on CPAs

American Institute of Certified Public Accountants

America Counts on CPAs

2004–2005 annual report


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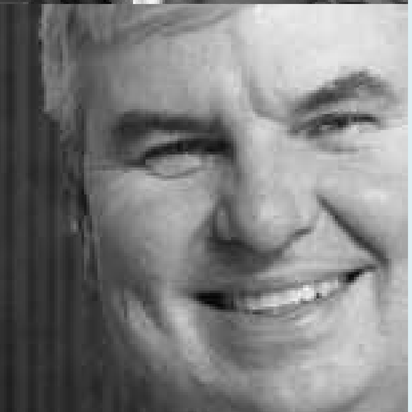


A Message to Members... from the Chairman and President

America counts on CPAs. That statement has held true since our profession began serving the American public over a century ago. Today, we are prouder than ever of our great profession and of the hundreds of thousands of CPAs whose inspiring commitment to our guiding principles has bolstered America's confidence. In the past year, our profession has come together like never before to reinforce the message that CPAs serve the public interest, clients and employers with the highest ethical and technical standards.

America counts on CPAs because our history speaks for itself. Even during the dark days of 2001–2002, most business leaders and individual clients believed in the competence and integrity of their own CPAs. In fact, trust in our profession was built one CPA at a time. Each CPA in America carries the responsibility of representing our profession before society, our communities and the business world. Each CPA has the power to make a tremendous difference.

Some CPAs have gone far beyond the call of duty in helping to build a profession that many Americans count on. True pioneers have so believed in the value of the CPA that they have taken extraordinary steps to achieve it. Ruth Coles Harris, who in 1962 became the first African-American woman to pass the CPA Examination, had spent the night 20 miles away from the exam site because no closer hotel would allow her to stay.

America counts on CPAs to do right by their communities as well. Many of us are actively involved in public service to help improve the lives of others. Robert Fay, a sole proprietor in Ohio, works with Habitat for Humanity to build homes for people unable to finance a traditional mortgage. Other members work with their state CPA societies to volunteer time to help military personnel solve their unique tax issues while serving overseas. Countless CPAs use their knowledge and skills to serve as volunteer leaders of religious organizations, charities and other community-based groups. Through individual commitment and effort, each CPA is building trust, making a difference for all of us.

America counts on CPAs because we have shown our commitment to raising the bar on our performance over the years. We developed solutions to deter fraud in financial reporting. We made peer review, continuing professional education and 150 hours of college-level education mandatory for all AICPA members. More recently, we launched three audit quality centers to help ensure high-quality audits by firms auditing public companies, employee benefit plans or governmental entities.

America counts on CPAs to develop solutions to business issues and marketplace demands. We are exploring ways to tailor generally accepted accounting principles to more appropriately present private company financial information to users and key stakeholders. We are steadily progressing toward offering real-time financial reporting that also covers non-financial aspects of a company's success and outlook.

America counts on CPAs to build bridges of communication and credibility with important audiences. Efforts to advance the public interest include our national 360 Degrees of Financial Literacy campaign to educate people about how best to become financially astute. As a result of broad-based media outreach and personal contact, Congress and other policymakers view us as a resource for information on such issues as tax fairness and simplification and Social Security reform.

America's CPAs count on CPAs, too. More than 2,100 AICPA members volunteer to serve on committees, task forces, expert panels, boards and special projects to help develop policies for and share best practices with other CPAs. And when CPAs are in need, their colleagues step in to help. Many CPAs in accounting firms and companies in the Gulf Coast suffered catastrophic business and personal losses from Hurricane Katrina in August 2005. CPAs from around the country offered assistance with supplies, information and other resources, often working with the AICPA and state societies in Louisiana, Mississippi and Alabama, among others.

America counts on CPAs, and our profession is stronger than ever. The following pages celebrate the ways that CPAs demonstrate their commitment to the public, clients, employers, businesses and their communities.

Robert L. Bunting, CPA
Chairman

Barry C. Melancon, CPA
President and CEO




Accounting's Future at a Glance

Tailoring GAAP for Private Companies

In today's business environment, does accounting based on generally accepted accounting principles (GAAP) meet the financial reporting needs of key constituents of for-profit, private companies, and is the cost of full compliance merited? Over the years, members have been asking these questions, as have external users of private company financial statements.

The Private Company Financial Reporting Task Force in March 2005 released its recommendations after extensive research among all key stakeholders of private company financial reporting. In May, the AICPA's governing Council approved a resolution based on those recommendations. Specifically, the resolution directed the Institute to work with the Financial Accounting Foundation and the Financial Accounting Standards Board to identify and implement a process that would evaluate, where appropriate, potential changes in recognition, measurement and disclosure differences from current GAAP as applied by privately held, for-profit companies. Any new standards should result in financial information that is no less in quality than that provided about public companies.

Research has indicated support for tailoring aspects of GAAP for private companies. For example, when asked a similar question in 1983 about GAAP differences in underlying accounting between public and private companies, 9% of financial statement users (mostly lenders) agreed and 65% of them disagreed. Now, 51% of lenders/creditors agree and 33% disagree — a significant reversal.

Letting Others See and Judge Our Quality

Observers and users of CPA services want to see what we do and how we do it. After intensive evaluation, the peer review standards were revised to reinforce the peer review program. Enhancements include increasing the usefulness of peer review reports so users better understand the purpose of a peer review and the review's findings; strengthening oversight of peer reviews and the 41 entities administering the peer review program to assure both peer reviewers and administering entities are fulfilling their responsibilities; and raising the level of qualifications of certain peer review team members as well as administering-entity technical reviewers and committee members.

"The AICPA has recognized that auditors may better serve private clients if our uniqueness and the needs of our financial statement users were more clearly defined. Exploring changes in GAAP represents a welcomed and fresh perspective in addressing private business and industry's needs for simplicity and directness in communications to lenders and owners."

Arthur V. Neis
Vice President – Treasurer/CFO
and an owner of LCS Holdings, Inc.
Des Moines, Iowa

Greater transparency in the peer review program also is being explored, demonstrating the profession's willingness to tackle difficult issues and debate how to best meet market demands. At the governing Council's direction, the AICPA in spring 2004 began to educate members on the evolution of the peer review process and today's expectation of increased disclosure. Members can find a wealth of material on the issues surrounding a move to greater transparency through a dedicated Web site, www.aicpa.org/transparency/index.htm. The AICPA also developed an online poll to gather feedback from members on the subject. Members may e-mail comments or viewpoints to peerreviewtransparency@aicpa.org as well. A high-level task force has been formed to address the issues raised to date in the online poll and recommend changes to enhance transparency.

Financial Statements Looking Forward

The AICPA has continued to take a lead on behalf of the profession in working toward marketplace demands for reliable, time-sensitive, forward-looking financial information. The Special Committee on Enhanced Business Reporting completed its two-year term in 2005, successfully realizing its mission of establishing the Enhanced Business Reporting (EBR) Consortium. As a market-driven, independent not-for-profit organization, the EBR Consortium is bringing together key stakeholder groups to collaborate on the development of a voluntary disclosure framework designed to be the gold standard in business reporting. The AICPA and other representatives of the CPA profession will participate in the EBR Consortium alongside various key players in the business reporting supply chain, including those from the corporate, investment, credit and regulatory communities. The AICPA also will continue to support the work of the EBR Consortium through the newly reconstituted AICPA Assurance Services Executive Committee, which will research, develop and promote new reporting and assurance practices and guidelines in line with the objectives of the EBR Consortium.

Adoption of XBRL Accelerating Worldwide

Extensible Business Reporting Language (XBRL) will effect a seminal change in how financial information is presented. XBRL, www.xbrl.org, will do for business reporting what bar coding did for product distribution, transforming the tracking, efficiency and accuracy of transactions.

It continues to gain traction. In another indication of its acceptance, the Securities and Exchange Commission (SEC) is currently evaluating the usefulness of data tagging and XBRL to registrants, investors, the commission and the marketplace. Moreover, the Public Company Accounting Oversight Board recently released staff questions and answers related to attest engagements regarding XBRL data furnished under the SEC's XBRL Voluntary Financial Reporting Program on the EDGAR system. Private companies and regulatory entities around the globe are employing XBRL as well. Furthermore, the AICPA and the profession are committed to XBRL as the enabler to Enhanced Business Reporting.

CPAs' Competencies in Focus

Maintaining the Bar on Audit Quality

CPAs who audit Government Accountability Office Yellow Book and Single Audits, employee benefit plans, or Securities and Exchange Commission public companies can turn to three new audit quality centers for comprehensive information and resources: **Governmental Audit Quality Center**, www.aicpa.org/GAQC; **Employee Benefit Plan Audit Quality Center**, www.aicpa.org/EBPAQC; and the **Center for Public Company Audit Firms**, www.aicpa.org/CPCAF. Through voluntary membership in these Centers, firms can access technical and educational guidance and member forums. They also learn best practices, share information on timely news and discover how to tackle new challenges. Each Center provides a collective voice and advocacy on relevant concerns and issues.

Members have seized upon the value of the audit quality centers. Nearly 900 firms are enrolled in the Center for Public Company Audit Firms, as of July 31, 2005, representing nearly 97% of firms engaged in such audits. More than 980 firms auditing over two-thirds of all ERISA plan audits belong to the Employee Benefit Plan Audit Quality Center. The most recent Center to launch, the Governmental Audit Quality Center, already has attracted nearly 400 firms that do a significant number of governmental audits.

Connecting CPAs Through New Specialized Centers

Special interest niches, financial and managerial accounting, and non-traditional services continue to grow among CPAs. Members practicing in these areas require targeted resources. In addition, accounting professors and students must keep up with changes in accountancy and the marketplace. To assist them, the AICPA launched several new Web-based Centers providing news, tools and resources designed specifically for helping members offer high-quality, profitable services or information.

- **Accounting Education Center**, www.aicpa.org/aec, supports educators and students, as well as houses resources on minority initiatives and work/life and women's initiatives.
- **Business Valuation and Forensic & Litigation Services Center**, www.aicpa.org/bvfls, supports members who specialize in business valuation or appraisal, forensic services, fraud investigation, economic damages analysis, family law services, litigation services and other related areas, such as estate planning.
- **Financial Management Center**, www.aicpa.org/fmcenter, provides a wide variety of information about financial and management accounting, including the traditional areas of financial reporting and tax. It also serves as a community resource to exchange ideas, discuss issues and connect with others sharing similar challenges. The Center was designed primarily for those working in business and industry, but other CPAs also will find helpful resources.
- **Information Technology Center**, www.aicpa.org/infotech, marshals news and education about new technologies; provides information about the Center's activities to other stakeholders; and offers a venue for CPAs, their clients, employers and customers to learn, monitor, assess, educate and communicate the impact of technology developments on business solutions.
- **PCPS Firm Practice Center**, www.aicpa.org/pcps, channels valuable up-to-the-minute news and information and practical resources for accounting firms that have privately held companies as clients. The Center meets the needs of smaller firms through specialized information, services, tools, advocacy and products.
- **Personal Financial Planning Center**, www.aicpa.org/pfp, offers CPA financial planners a comprehensive set of tools and educational materials on a full range of financial planning practice areas, from disaster recovery and investment planning, to ethics and fiduciary responsibility. The Web site also includes a database of all CPAs in the U.S. who have earned the Personal Financial Specialist credential.
- **Tax Center**, www.aicpa.org/tax, helps tax practitioners learn about the profession's tax advocacy in Washington, D.C., and tax professional standards. Tax Section members also can access such premium content as tax practice guides and checklists and tax forums organized by specialized area of knowledge.

Demonstrating Competency in Specialized Areas

Members who have earned the Personal Financial Specialist (PFS), Certified Information Technology Professional (CITP) and Accredited in Business Valuation (ABV) credentials received increased support with targeted communications, technical guidance and marketing tips this past year. New, robust Web sites brought together new resources, community building tools, products and information to help members build their expertise. Moreover, continued successful relationships with the media, the Department of Labor, the American Red Cross, the National Endowment for Financial Education, the Foundation for Fiduciary Studies, the American Society of Appraisers, and the Institute of Internal Auditors, among others, have further increased exposure of the CPA specialty practice areas. Currently, there are more than 3,200 PFSs, nearly 700 CITPs and close to 1,800 CPAs with the ABV credential — bringing the three programs closer to their designated financial breakeven points and credential-holder targets.

Addressing the Needs of Small Firms

Small business is big business. Approximately 24 million small businesses operate in the U.S. These smaller businesses often have special needs, and the CPAs serving them — often smaller firms themselves — require targeted information.

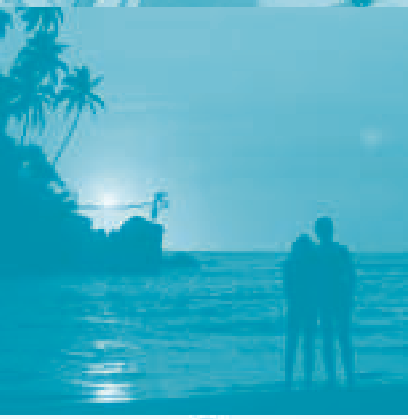
The Private Companies Practice Section (PCPS) works as a community for the more than 45,000 firms whose clients are privately held companies. In June 2005, it launched the PCPS Firm Practice Center, www.aicpa.org/pcps. PCPS also supports small firms regarding specific practice management issues, such as succession planning, for which the section developed extensive technical materials, tools and communications in response to member concerns.

In addition, PCPS teams with the Texas Society of CPAs to conduct an annual survey that gleans details on best practices among small firms. More than 2,300 firms nationwide responded to this year's survey, providing a snapshot on revenues, service areas and alliances with other CPA firms. Results are available for free to PCPS members (non-members can purchase the report).

Further demonstrating the AICPA's response to small firm needs, the AICPA's Web site, www.aicpa.org, in April 2005 launched a new Small Firm Corner. The online feature provides regular updates from the Vice President – Small Firm Interests on initiatives, advocacy efforts and new resources.

"Being a small company in a highly specialized business, we benefit tremendously from the level of service a small accounting firm offers. Not only does the firm handle the traditional tax and review work, but also strategic planning and financial modeling — expertise we cannot afford internally. Moreover, the firm's personal contacts opened doors to a unique banking arrangement that we would not have had otherwise."

Todd M. Grant, CEO and Founder
New Territories, Inc.
North Kingstown, Rhode Island
Client of William R. Pirolli, Managing Partner,
Pirolli Deller & Conaty, CPAs,
Warwick, Rhode Island

Standing Tall in the Public's Eye

Trust in CPAs Grows

A great profession's success rests on its reputation for integrity and competence. Good news for CPAs: Independent research shows that public opinion of the profession is as strong as ever.

Business decision makers, executives and investors continue to give high marks to CPAs, says research conducted in 2005 by Penn, Schoen & Berland Associates. Not only did CPAs receive higher favorability ratings than the always well-regarded physicians, but they mightily outranked other financial-related professions, such as insurance agents, bankers, management consultants and stock research analysts.

In addition, CPAs improved over 2003 research results both in CPA heritage attributes and in general professionalism. Reliability, integrity, ethics and commitment to the profession's rules moved higher among respondents, who also showed a significant decline in their perception that CPAs were willing to cut corners for clients. They also believe the accounting profession has taken steps to fix the problems that led to past accounting scandals.

Members Help Spread the Good Word

Responding to members' calls for help with marketing their firms' services, the Institute, in cooperation with the New Jersey Society of CPAs, created the award-winning **CPA Marketing Tool Kit**. Garnering more than 1,800 hits a day on average, the tool kit was honored with the Public Relations Society of America's Big Apple Award, which recognizes excellence in communications. Available online at www.aicpa.org/cpamarketing, this free kit provides small firms and sole practitioners with a comprehensive marketing resource to promote a firm's practice and services and increase its visibility. It features print advertisements for CPA firms to run in local publications, as well as brochures and speeches on such topics as selecting a business structure, planning for retirement and securing business financing. It even includes artwork and usage instructions for the CPA logo and the new "America Counts on CPAs" tagline. Since the start of 2005, this new tagline became the only one to be used with the CPA logo.

"Business decision makers are looking for CPAs to claim the trusted adviser role now. As the negative focus on accounting has lessened and key audiences have seen the profession taking positive steps, CPAs can now make headway to fill that space."

Penn, Schoen & Berland Associates
Report to the AICPA: Research Findings and Implications

CPA Ambassadors Take to the Road

The CPA Ambassador program, www.cpaambassador.org, puts a face and name to the CPA profession, focusing on the strength of individual CPAs to reinforce the profession's reputation with the public. So far, the AICPA has trained more than 500 Ambassadors as spokespeople on the topics of financial literacy, small business success, student recruitment and CPAs working in the public interest. Through speaking engagements and media interviews, Ambassadors are bringing greater recognition and appreciation of the enduring value of the CPA to communities, business leaders, employers, investors, legislators and others.

The AICPA Gets the Message to the Media

The AICPA continued to strengthen relationships with the national media and keep the press informed about the Institute's wide-ranging activities. Reporters this year regularly sought out the AICPA as an authoritative source about taxes, with the resulting stories reaching an audience of more than 26 million. Tax articles citing the AICPA appeared in such publications as *Newsweek, U.S. News & World Report, USA Today, The Wall Street Journal, The Washington Post* and the *Boston Globe*, as well as on NBC, CBS and CNN and the Dow Jones and Associated Press wire services. In addition, the AICPA secured coverage of its new initiative to explore tailoring generally accepted accounting principles for privately held, for-profit companies; of new AICPA ethics rulings requiring disclosure to clients when work will be outsourced to third parties; and of the Institute's comprehensive analysis of Social Security reform. Looking forward, the AICPA expects to further demonstrate the CPA profession's contributions to the financial stability of business, the country and its citizens.

Securing America's Financial Future

Guiding Americans Throughout Life

In May 2004, the AICPA launched 360 Degrees of Financial Literacy, a national effort of the CPA profession to improve Americans' financial understanding. The program provides a comprehensive approach to financial education, focusing on the information consumers need at every stage of their lives, from childhood to retirement. CPAs volunteer their time and expertise to educate community members about these financial issues.

Response to the 360 Degrees of Financial Literacy effort has been overwhelmingly positive. More than 150 million people have learned about this campaign over the past year, and the effort has been recognized by many notable public officials, including Secretary of the U.S. Treasury John W. Snow, Representative Ruben Hinojosa (Texas), and U.S. Comptroller General David Walker, CPA, who helped the AICPA launch the program, calling on CPAs across the nation to join the effort. Others have taken notice of the profession's leadership in this area as well. The initiative has received a 2005 Summit Award from the American Society of Association Executives, its most prestigious honor for associations that implement innovative community-based programs. It also was honored with a 2005 Clarion Award from Women in Communications, a 2005 Crystal Award from The Communicator Awards, a Web Star of the Week Award in June 2005 from WebCPA, and the Web Marketing Association 2005 Web Award.

Truly a grassroots effort, participation includes CPAs around the country, state CPA societies and consumers themselves. Women's unique financial needs were a special focus, as were potential victims of natural disasters.

CPAs can obtain educational information from the CPA Financial Literacy Resource Center, www.aicpa.org/financialliteracy. The online resource houses a free continuing professional education course and toolkits created by the AICPA and the California Society of CPAs that are tailored to life events that trigger a specific financial need, such as parenthood, military service, small business operations and home ownership. CPAs interested in staying up to date with developments on either the state or national level may sign up through http://volunteers.aicpa.org/financialliteracy. Registered CPAs receive a newsletter and invitations to financial literacy conference calls. CPA volunteers may become eligible to receive a Certificate for Volunteer Financial Literacy Service.

Fully 50 state societies developed new programs or enhanced related financial literacy efforts. Programs ranged from providing financial guidance to families of active military personnel and publishing a financial fitness calendar, to conferring public service awards and sponsoring fundraisers for lower-income individuals. A comprehensive list of state activities is available online from the resource center.

Consumers may tap into information to help them make sound financial decisions through www.360financialliteracy.org. Organized by common life stages, the Web site is flexible and user friendly and includes articles, planning tools, exercises and links to other helpful sites. CPAs can use the site to support their own volunteer efforts or to help consumers access the kind of information that leads to more informed financial decisions. Americans have taken notice: the consumer-oriented Web site has had more than 5 million hits since its launch and ranks in the top five on many major search engines.

The general financial literacy campaign was extended in May 2005 to target women through the launch of 360 Degrees of Financial Literacy for Women. A special section of the 360 Web site, www.360financialliteracy.org/women, gives women access to more than 600 pertinent articles and personal financial planning tools. Targeted information also was developed to explain how to minimize potential financial problems before a natural disaster strikes. The AICPA, along with the AICPA Foundation, the National Endowment for Financial Education and the American Red Cross, published *Disasters and Financial Planning: A Guide for Preparedness*. This broad-based disaster preparedness and planning guide is distributed free of charge by local Red Cross chapters across the country. An online version of the guide is available on the Red Cross Web site at www.redcross.org/financialplanning.

> **"I want to commend the AICPA for its 360 Degrees of Financial Literacy effort. Treasury's Office of Financial Education is delighted to be working with the AICPA on national financial education efforts; our partnership is very important to the young people who will benefit from those efforts."**
>
> John W. Snow, U.S. Secretary of the Treasury

The Profession's Renewal

New Testing of CPA Candidates Takes Hold

The computerized CPA Examination was introduced on April 5, 2004. Migrating to this format allows for improved assessment of the skills and knowledge needed by today's entry-level CPAs — consistent with our mission to protect the public interest. For candidates, it provides increased scheduling flexibility and far greater convenience. The exam also includes tasks similar to those done by entry-level CPAs with the use of case studies that have been highly effective in aligning the examination more closely with business practice.

The new format has proven successful. Fully 97% of candidates surveyed after the exam were satisfied with their experience. The exam's launch and completion rate of over 99% is exceptional. Both candidates and employers see the conversion to a computer-based test as a positive change, and many employers believe accountants who pass the computerized exam will be better prepared to work for their organizations.

When computerization of the exam was initiated, it was expected that the changes in rules, content and delivery would impact exam candidates. Many informational programs were put in place to make that transition smoother. Still, the first year of testing saw a decline of nearly 37% in the number of candidates sitting for the exam. A task force consisting of representatives from the AICPA, the National Association of State Boards of Accountancy, state boards of accountancy, state societies and Thomson-Prometric studied the exam volumes and found that the number one reason candidates cite for not taking the exam is that they are too busy. Task force recommendations to improve the number of exam takers and sections completed included greater employer support and having exam review course providers cover the new application process as part of their courses. We are seeing an increase in candidates, as almost 50,000 exam sections were administered during the July/August 2005 testing period.

Successfully Attracting the Best and Brightest

Efforts to pump up interest in accounting as a career choice through our award-winning Start Here. Go Places. student recruitment campaign, www.startheregoplaces.com, have yielded very positive results. After three years, the initiative has generated more than 929,000 responders (students responding to various elements of the campaign); 267,000 registrants (those signing up for continued information); and over 175,000 leads, 86% of whom are incremental leads (meaning they would not normally have been attracted to the accounting profession if not for this campaign).

In other signs of success, 42% of high school students who registered for the campaign are more likely to consider accounting as a result of the program, and 44% of those in college felt the same way. In fact, 68% of early college Start Here. Go Places. registrants have taken steps to pursue accounting.

All those numbers mean we are and will continue producing more accounting graduates. The AICPA's survey of the supply of new accounting graduates for 2003–2004 showed more than 40,000 students were awarded Bachelor's degrees in accounting and over 13,000 were awarded Master's degrees. That finding represents a 9% increase in Bachelor degree recipients and a 5.4% rise in Master's degrees over the 2002–2003 academic year. When looking at the four-year period 2000 to 2004, accounting enrollments ballooned by 19% (up to 171,000 students in 2004). The 2005 edition of the report, *The Supply of Accounting Graduates and the Demand for Public Accounting Recruits*, is available through the Accounting Education Center at www.aicpa.org/aec.

Balancing Professional and Personal Lives

Many studies over the years have shown that both men and women want more balance in their lives. They want to pursue hobbies, expand their interests and spend more time with family. The AICPA's Work/Life and Women's Initiatives Executive Committee promotes work environments that help CPAs strike a balance between their personal and professional lives. Mentors, protégés and employers can get help setting up a mentoring program, from roles and responsibilities to qualifications and benefits, through guidelines released this year, available at www.aicpa.org/worklife. Women CPAs in business and industry can find relevant information in the new edition of *Promoting Your Talent: A Guidebook for Women and Their Firms*. On the horizon, online tools employers can use to implement flexible work arrangements will be offered through a new work/life affinity program.

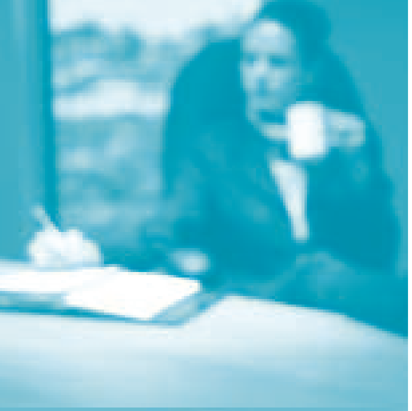
To get a current snapshot of women's issues in accounting employment, the AICPA conducted a survey in 2004. It revealed that while women are not advancing in comparison to their numbers, once they make partner they advance to leadership positions in their firms. Firms apparently are increasingly offering non-partner tracks for those less interested in partnership — women are taking advantage of such options over men by a margin of more than two to one (39% versus 17%). Workplace flexibility is important to retention, according to firms, though they admit they could do a better job of formalizing policies and communicating their availability (flextime and part time are the most widely used arrangements, at 66% and 70%, respectively). Most professionals leaving public accounting report working conditions (female 90%/male 80%) and work/life issues (female 86%/male 70%) as primary reasons. Staff retention was added to the list of issues for the committee to address in its new strategic plan.

Working to Improve Diversity

Our profession should reflect the America it serves, and the AICPA is committed to the work of the Minority Initiatives Committee to achieve that goal. For example, scholarships were awarded to 157 students at 107 different universities (the students' average accounting and overall GPAs were 3.8) to provide financial support. Student leadership workshops have enabled 800 participants to hear from leaders of the profession and learn about the importance of the CPA credential. In addition, the committee has developed print advertising campaigns specifically for minority high school and college audiences that connect them with the profession's Start Here. Go Places. recruitment effort. As a sponsor of the Ph.D. Project, a partnership of forward-thinking corporations, the AICPA helps fuel a pipeline of potential doctoral students. Over the past 10 years, the program has doubled the number of minority business Ph.D.'s in the classroom who also serve as role models for today's youth. Relationships with key strategic partners further add to the mix of programs to attract minority students to accounting careers.

"The accounting profession has been lofted to unexpected new heights of power and prosperity. Hiring is through the roof and, for the first time in years, students flock to accounting class."

Holman W. Jenkins, Jr.
The Wall Street Journal




A Public Voice

Boosting Audit Committee Performance

Since passage of the Sarbanes-Oxley Act in 2002, audit committees have had a heightened responsibility to investors, creditors, regulators and others. The AICPA swiftly established the Audit Committee Effectiveness Center, www.aicpa.org/audcommctr, to help audit committee members fulfill that responsibility. During this past year, the Institute enhanced its Audit Committee Matching System based on member feedback and added resources for audit committees of non-public entities.

Specifically, members interested in serving on audit committees now can upload their résumés into the Audit Committee Matching System and companies can search for candidates from those résumés. In total, more than 2,000 audit committee candidates are in the system. In addition, the Center now houses the *Audit Committee Toolkit: Not-for-Profit Organizations* and the *Audit Committee Toolkit: Government Organizations*. The not-for-profit toolkit covers governance topics ranging from developing an audit committee charter and hiring the chief audit executive, to conducting an executive session and evaluating independent auditors. The government toolkit explores conducting an executive session, discussions to expect from the independent auditor, peer review of CPA firms, evaluating independent auditors, fraud, internal controls and more. Print versions became available in October 2005. A second edition of the toolkit released in 2004 for corporations is planned. All three toolkits, which are available as free downloads and can be customized for internal use, cover a wealth of governance topics providing a comprehensive set of best practices that will help audit committees function effectively and appropriately.

Securing Social Security

Americans rightly are concerned about their financial well-being during their golden years. Warnings about the dire consequences of not fixing problems with the current Social Security system have hastened the public's resolve to find a solution. In the fierce debate on Social Security's future solvency, the AICPA and the profession emerged as a voice of independent analysis. In March 2005, the Institute released *Understanding Social Security: The Issues and Alternatives,* www.aicpa.org/members/socsec.htm. This report, which updated the AICPA's 1998 study, provides members of Congress and policymakers with the same thoughtful discussion of options for reforming Social Security that was available to them during the last major congressional debate on the topic. A section on privatization was added to serve as a primer on the potential advantages and disadvantages of such an approach and the issues involved.

A news briefing held on March 8 in Washington, D.C., provided the media with an overview of the report, which was distributed to national and trade media outlets as well. In addition, the Institute provided the state CPA societies with resources to inform their members about the report and Social Security reform.

Protecting Consumers of CPA Services

CPAs have long regarded their commitment to protecting the public interest as the profession's highest priority. Ensuring CPAs remain competent and relevant is core to the cause.

After more than 50 meetings and conference calls among committees and task forces, the AICPA and the National Association of State Boards of Accountancy (NASBA) on August 1, 2005, jointly issued an exposure draft on revisions to the Uniform Accountancy Act (UAA) Statute, the joint state model licensing law of the AICPA and NASBA. This exposure draft proposes the most significant revision to the UAA Statute since 1997 and aims to enhance the mobility of CPAs, enforcement of qualifications and adherence to professional standards/ethics. A new version of the UAA reflecting many of these proposed changes is expected to be released in early 2006.

The AICPA continues to work 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 non-public companies — primarily to private companies and consumers served by those companies — the AICPA's Special Committee on State Regulation continues to provide guidance through a compendium of white papers and issue briefs, titled *A Reasoned Approach to Reform*. During the last year, several states around the country have considered reform measures as a result of Sarbanes-Oxley, and *A Reasoned Approach to Reform* has been used extensively to help educate elected officials and members of the business community.

Tax Issues Affecting Everyone

With the goal of providing policymakers and interested individuals with a clear understanding of the issues and alternatives involved in federal tax reform, the AICPA in October 2005 issued *Understanding Tax Reform: A Guide to 21st Century Alternatives*, www.aicpa.org/taxreform. The report, updated from a 1995 study that focused on flat taxes and consumption taxes, aims to foster informed discussion by providing unbiased information and analysis and offers methods for analyzing reform proposals.

On a related tax issue, in June 2005 the AICPA endorsed a House of Representatives bill that called for repeal of the individual and corporate Alternative Minimum Tax (AMT). The AMT originally was created to ensure that the wealthiest taxpayers, able to significantly reduce or eliminate their regular tax by taking advantage of the tax laws, would at least pay some reasonable amount of tax. Because of "bracket creep" (the $200,000 income threshold for the 36-year-old tax was never indexed for inflation while incomes have been rising), even middle-income families are being captured. It is estimated that the AMT will affect 33 million taxpayers by 2010. Help may be on the way. On July 20, 2005, President Bush's bipartisan tax advisory commission announced it will recommend abolishing the AMT for individuals in a report due in fall 2005.

As a leader in exploring rationality in tax policy, the AICPA recommended to the Internal Revenue Service (IRS) Oversight Board that they should be improving taxpayer service, enhancing enforcement of the tax law and modernizing the IRS through its people, processes and technology. Similarly, in testimony before Congress at the end of the 2005 tax filing season, the AICPA focused on boosting funding to the IRS, continuing the IRS's Business Systems Modernization project, achieving electronic filing goals, reducing information return problems and simplifying the tax code.

The AICPA is on record as being against tax transactions whose sole purpose is to reduce or avoid payment of federal income taxes in an abusive manner. However, the AICPA and its members also believe that Americans — and businesses — should be able to employ strategies that minimize their tax burdens legitimately and legally. Drawing that line is a difficult task, and we have been working with Congress to devise solutions. Our ethical standards prohibit a member from participating in any way in abusive tax shelter activity, and this message is made very clear through publications and presentations to CPAs. In addition, the Tax Shelter Task Force has met with Capitol Hill staff to discuss issues that surfaced in pending cases brought by the IRS and Justice Department against tax practitioners, which the task force had been asked to review.

CPAs must maintain the highest degree of ethics in tax work to uphold the profession's reputation. The AICPA Tax Division continues its activities to promote a better understanding of authoritative standards of tax practice and the Institute's interest in ethical issues. In addition, a new ethical standard is being designed to require an AICPA member to have a system of quality control for his or her tax practice for the client's benefit.

Advocating for People, Businesses

Americans look to CPAs to represent them on an array of issues beyond taxes as well. Whether it is on behalf of individuals, small business owners or other business entities, the AICPA serves as an insightful voice.

The Institute in July 2005 endorsed the SIMPLE Cafeteria Plan Act of 2005. The bill proposes allowing small businesses to provide nontaxable benefits, such as flexible spending accounts, to their employees. The legislation also would allow cafeteria plans of all sizes to offer long-term care insurance as an optional benefit; permit the carryover of unused flexible spending account funds; simplify and increase dependent care accounts; and curtail the "use it or lose it" rule, which causes employees to forfeit their own dollars to their employers when the funds are not spent on health care or dependent care.

While small business is the engine for job growth, many do not provide health care coverage to their employees because of its expense. Legislation to allow small business owners to join together across state lines through their membership in a professional association so they may purchase affordable medical coverage for their employees was supported by the AICPA — and approved in the House of Representatives. The Senate is now drafting its own companion legislation.

"The AICPA's Social Security report is an invaluable tool for members of Congress and others involved in looking at reform. It offers an unbiased analysis of the issues involved and will help policymakers understand the economic and social impacts of the various proposals."

Rep. Brad Sherman (D-Calif.)
House Financial Services Committee

"The AICPA fulfills an important mission in the public interest by providing policymakers with facts and independent analysis about some of the most important issues of our day, such as Social Security and tax reform proposals. Since CPAs play a vital role in our economy, their perspective is very helpful to Congress in understanding the effects of legislation on American business."

Rep. Clay Shaw (R-Fla.)
House Ways and Means Committee

Helping CPAs Uphold Our Core Values

Maintaining the Profession's Hallmarks

As a membership organization, a top priority for the AICPA is providing CPAs with the guidance, tools and resources they need to perform with the utmost competence and integrity — characteristics that define the profession. Several issues took center stage this past year.

The Institute clarified **auditor independence** through Ethics Interpretation 101-3, *Performance of Nonattest Services*, in fall 2003. In response to member feedback on certain elements of the interpretation, revisions were made in January 2005. The revisions do not relax the rule or change its intent, but replace "competency" with "suitable skills, knowledge and/or experience"; modify the documentation requirement; and clarify what sections of the rule do and do not apply to the performance of routine activities (which are defined). A wide range of resources helps members implement the interpretation, including frequently asked questions and real-life examples of the interpretation in practice, available at www.aicpa.org/members/div/ethics/intr_101-3.htm.

Outsourcing was a hot topic in both the media and in politics last year, as well as among CPAs. For the profession, the issue centered on confidentiality of client information and quality of work performed. In response, the Institute adopted ethics rulings to help members understand their responsibilities when outsourcing services to third parties. The essence of the rulings was increased requirements for disclosure to clients when outsourcing occurs so the client would be fully informed on how the professional services will be performed. The rulings, effective for all professional services performed on or after July 1, 2005, guide members through relevant issues while maintaining our profession's commitment to the public's trust.

Members also turned to the Institute for help with implementing **standards and rules issued by the Public Company Accounting Oversight Board (PCAOB)**. Regarding the PCAOB's comprehensive Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements*, auditors and financial managers turned to one of two new publications. Each book was specifically designed to explain how to implement the standard from the perspective of either the outside auditor or the internal financial manager. In addition, the AICPA also published a compilation of PCAOB professional standards and related rules to supply auditors, internal auditors and financial managers of public companies with a workable, current and thorough source of PCAOB standards on their engagements.

Resources Dedicated for CPAs

Conferences Help CPAs Gain Knowledge

Conferences had another banner year in 2005. The changes in the accounting profession and the demand for training continue to remain strong. The AICPA and its wholly owned subsidiary, NorthStar Conferences LLC, presented more than 60 national conferences and trained over 21,000 professionals. Many of our conferences filled to capacity, including the National Conference on Employee Benefits, the National Not-For-Profit Industry Conference, the Controllers Workshop, the Tax Strategies for the High Income Individual Conference, the Accounting Firm Partner Compensation Forum, the National Conference on Banks and Savings Institutions, the National Business Valuation Conference and the National Conference on Current SEC and PCAOB Developments. New conferences were developed as well, including the Retirement Planning Conference and the Healthcare Industry M & A Institute. We also reintroduced the Staffing Forum, the National Conference on Executive Compensation and the Advanced Medical and Legal Practices Consulting Conference.

CPA2Biz Delivers for CPAs and Clients

CPA2Biz Inc., the Institute's majority-owned marketing and technology provider, posted its third consecutive year of strong growth, moving the company to profitability for this fiscal year. Results were driven by increasing usage of services, strong revenue growth in new business lines and a reduction in depreciation expenses.

The CPA2Biz site, www.cpa2biz.com, has become the leading e-commerce site for the CPA profession. More than 200,000 CPAs regularly use the site to access articles, online literature, continuing professional education, career resources and a selection of more than 1,000 professional products and services. Sophisticated shopping tools allow CPAs to see real-time stats on the products their peers are buying, as well as locate relevant products quickly through tools like the CPE self-study product finder and a powerful search engine. Users can now preview hundreds of products before making a purchase by taking advantage of such special features as sample sections and video clips, helping CPAs make more informed buying decisions. With the addition of such state-of-the-art capabilities, almost 50% of all new AICPA product orders are now placed through the CPA2Biz site, a significantly higher online order percentage as compared to other leading professional associations, demonstrating the special focus and expertise CPA2Biz is providing to the AICPA and its membership.

CPA2Biz is also helping CPAs build stronger relationships with their clients through the AICPA Business Solutions Program, which was launched by CPA2Biz in the fall of 2003. More than 15,000 CPA firms nationwide are now enrolled in the program. The program includes offerings in three core areas: payroll, small business banking and 401(k). Each offering allows firms to provide unique value to clients, all the while ensuring CPAs maintain an ongoing role in the decisions impacting the CPA-client relationship. To date, CPA firms have referred thousands of clients through this program with over 90% stating satisfaction with the program offering and 96% stating their intention to refer additional clients.

> **"My clients have benefited from programs I could tap into through CPA2Biz, whose offerings help level the playing field between large and small firms. I've worked in several large firms where someone did all the background work and research and distributed it throughout the company. In your own practice, that resource might not exist so you use CPA2Biz to improve service to your clients. "**
>
> Richard Flynn, CPA,
> President of Flynn & Company,
> Cincinnati, Ohio

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AICPA®

2004 – 2005 Annual Report

FINANCIALS

Sources and Occupations of AICPA Membership

	1999	2000	2001	2002	2003	2004	2005
Total AICPA Membership (excluding student and other affiliates)	336,635	337,454	336,081	337,867	335,111	334,635	327,135
Public Accounting	39.5%	39.4%	38.9%	38.8%	38.4%	39.0%	39.2%
Business & Industry	46.2%	46.4%	46.6%	47.4%	47.4%	41.6%	42.9%
Education	2.4%	2.3%	2.3%	2.3%	2.4%	2.3%	2.4%
Government	4.3%	4.2%	4.1%	4.0%	4.1%	3.9%	3.9%
Retired & Miscellaneous	7.6%	7.7%	8.1%	7.5%	7.7%	13.2%	11.6%
Membership in Public Practice	133,036	132,943	130,870	130,995	128,730	130,343	128,292
Firms with one member	22.8%	21.8%	21.6%	21.3%	21.4%	22.6%	23.0%
Firms with 2–9 members	34.7%	34.1%	34.1%	33.9%	34.1%	29.9%	31.6%
Firms with 10 or more members, except the 25 largest firms	21.6%	22.8%	22.8%	24.0%	24.5%	26.0%	24.7%
25 largest firms	20.9%	21.3%	21.5%	20.8%	20.0%	21.5%	20.7%

Management's Discussion and Analysis

As a professional association, the AICPA has a unique blend of responsibilities. We are committed to serving the public interest, advancing the quality of financial reporting and services within the United States and meeting the diverse needs of our members. To achieve the latter goal, we focus on supporting the profession's long-held core values and enhancing the technical competencies of CPAs. An underlying principle of our operations as we pursue these objectives is maintaining fiscal responsibility. A detailed account of our broad range of activities is provided in the 2005 Annual Report, and it is important to place this Management's Discussion and Analysis in the context of achievements and challenges experienced in Fiscal 2005.

This year, we took great strides in serving the public interest. The profession received national recognition for its unprecedented effort to organize programs across the country to raise the financial literacy of Americans through our 360 Degrees of Financial Literacy initiative. We also stepped up momentum in efforts to enhance the quality of audits, concluded an historic research project and launched a process to address private company financial reporting, and took steps towards improving the effectiveness of the profession's peer review system.

MEETING THE DIVERSE NEEDS OF OUR MEMBERS

Specialty Practice Areas

In October 2003, the AICPA's governing Council approved the retention of the AICPA's three Specialty Practice Areas. These areas include the three specialty credentials — Personal Financial Specialist (PFS), Accredited in Business Valuation (ABV) and Certified Information Technology Professional (CITP), as well as their associated technical disciplines and membership sections — Personal Financial Planning (PFP), Business Valuation/Forensic and Litigation Services (BV/FLS) and Information Technology (IT).

The Council approval provided additional financial support for the Specialty Practice Areas as well as setting certain metrics related to the growth of these areas, which the AICPA monitors closely. Since receiving Council's approval and direction, the AICPA has enhanced the member value proposition for the Specialty Practice Areas by developing Web communities and providing technical and practice management resources, products and news, membership information and regulatory and legislative updates.

BALANCING THE PUBLIC INTEREST AND MEETING THE NEEDS OF OUR MEMBERS

Computerized CPA Examination

The computerization of the CPA examination (computer-based testing, or CBT) is another example of how the AICPA balances its objectives to serve the public interest while supporting the diverse needs of its members and securing the future of the profession. The CBT tests a wide range of technical competencies of potential CPAs in a leading-edge testing environment. The CBT is delivered through a tri-party agreement (the Agreement) between the National Association of State Boards of Accountancy (NASBA), Thomson-Prometric and the AICPA. The AICPA accounts for CBT on a break-even basis over the life of the Agreement.

Under this accounting treatment, the AICPA had approximately $27.9 million in net deferred costs associated with CBT reflected in its Statement of Financial Position as of July 31, 2004. During Fiscal 2005, the AICPA recognized revenue of approximately $7.1 million and incurred costs of approximately $18.1 million. Accordingly, costs equal to the revenue recognized in the current year have been expensed, with the remaining amount recognized as an increase to deferred costs. As such, at July 31, 2005, the balance of approximately $38.9 million of net deferred costs is reflected in the Statement of Financial Position. The deferred costs are tested annually for impairment and as of July 31, 2005, no impairment loss has been recognized. Three main factors affect the recoverability of the net deferred costs — future candidate volume, future price increases and cost management.

Prior to the launch of the CBT, candidate volume was anticipated to be higher than what has been achieved to date. After the CBT launched in April 2004, candidates completed approximately 37,000 test sections and by July 31, 2005 another 152,000 test sections had been completed. Although the actual volume through July 31, 2005 is lower than estimates prepared prior to the launch, the AICPA anticipates that 160,000 test sections will be completed in Fiscal 2006. This estimate is based on actual experience including the latest testing window ended August 31, 2005 which showed 51,000 test sections completed. The number of students earning accounting degrees continues to increase, providing opportunity to increase volume for the exam as well as new initiatives developed by the AICPA to increase candidate volume.

The candidate cost to take the CPA exam is set by each licensing jurisdiction and ranges between $575 and $1,000, assuming a candidate takes all four parts (some licensing jurisdictions include licensing costs in the exam fee charged to candidates). The AICPA earns $45 per section, or $180 for a candidate taking all four parts of the exam regardless of the candidate charge set by the licensing jurisdiction. Research has shown that the cost of the exam was not a deterrent to candidates. For candidates taking the examination after January 1, 2007, a price increase has been announced, pursuant to the rights granted in the Agreement, which will increase the per test section fee paid to the AICPA by NASBA from $45 to $65; the Agreement also allows the AICPA to increase its per test section fee over its term. Moreover, the AICPA is also reviewing the projected expenses of the examination to explore opportunities to reduce costs where possible, without negatively impacting the CBT technology platform or the services provided to the candidates.

Due to the uncertainty of the impact of the computer based format on future candidate volume and lack of historical experience administering the exam in this format, the AICPA, in the interest of the profession, agreed to fund the "volume risk" for the initial years of the Agreement. Accordingly, the Agreement contains a provision that requires the testing center seat charge rate to be fixed each year and that the AICPA make whole this per hour fee if the exam volume falls below certain projected levels. During the four months ended July 31, 2004 and the year ended July 31, 2005, the levels in the Agreement were not met and the AICPA was required to "true-up" from a cash flow perspective the seat charge rate for approximately $3.9 million, an amount recoverable in future years under the terms of the Agreement. As of July 1, 2005, the per hour seat fee charged to candidates has been increased to reflect current volume and the AICPA does not anticipate any true-up payments for the remainder of the contract. Given these factors, and the work the AICPA is doing to increase candidate volume, to monitor the need for future price increases and to explore opportunities to reduce costs, the revised projections continue to reflect the AICPA's belief that the CBT deferred costs will be fully recovered over the life of the Agreement.

To finance this critical professional initiative, the AICPA incurred debt that was suitable and appropriate for this kind of investment. As of July 31, 2005, the AICPA had total outstanding debt related to the CBT project of $35 million which consisted of a $25 million, 7-year term loan and a $10 million interest free loan from Thomson-Prometric. In addition, the AICPA holds a $20 million line of credit to meet occasional cash needs for CBT and other operations during the course of the year and the upcoming year. There were no outstanding borrowings under the line of credit as of July 31, 2005.

OPERATIONS

The New Information Technology Platform (MSP)

The past fiscal year brought many successes and solid advances in services for the public and the profession. However the AICPA, like many organizations today, faced some operational challenges. In Fiscal 2004, the AICPA launched its new Member Solutions Partnership (MSP) platform in collaboration with the state CPA societies. MSP was designed to upgrade the AICPA and state society database systems infrastructure to better serve the combined membership. However, the new platform exhibited operational challenges at the end of Fiscal 2004 that affected the overall AICPA member experience, causing delays in the Fiscal 2005 dues mailing and in member order fulfillment, as well as challenges with the data conversion process from our multiple legacy systems.

However, operational challenges and periods of instability are often expected in a software implementation of this complexity and magnitude, and to prevent future difficulties, the AICPA has implemented several enhancements to the overall platform. The Fiscal 2006 dues mailing occurred on time and the order fulfillment cycle has been significantly improved. Despite the problems that we encountered with the response to the Fiscal 2005 dues mailing, the member response rate to the Fiscal 2006 dues notice has been very strong and cash received prior to July 31, 2005 returned to pre-implementation levels. Additional enhancements will be put in place during Fiscal 2006, with the goal of providing the best service to our members. The AICPA remains committed to improving and refining its systems and the related internal control structure.

The operational challenges experienced with the MSP platform affected our partner state CPA societies as well. In July 2005, the partner state societies informed the AICPA's Board of Directors of their desire to withdraw from the platform until the major operational issues have been fully resolved. The AICPA is committed to refining the platform to meet the operational needs of the AICPA and its members and looks forward to partnering with the state societies on this project in the future.

Defined Benefit Pension Plan

Over the last two years, the AICPA also has encountered higher costs associated with its defined benefit pension plan. To reduce the pension plan costs and financial exposure to the AICPA, the pension plan provisions were restructured two years ago to reduce future benefits. Similar to many other organizations that have been affected by declining interest rates over the past several years, as well as market fluctuations, the AICPA's defined benefit pension plan has found itself under-funded following a 17-year period in which cash contributions were not required. However, in Fiscal 2005, the AICPA contributed \$3.8 million to the pension plan.

As a result of the interest rate fluctuations, the assumed discount rate for the AICPA pension plan has decreased from 6.50% to 5.90%. Since the difference between the accumulated benefit obligations recorded and the fair market value of the assets at April 30 (the plan year end) is greater than the accrued pension liability, the AICPA recorded an additional pension expense. The aggregate of the ordinary pension expense and the minimum pension liability of \$5.7 million as of July 31, 2005 flows through the statement of activity in a not-for-profit organization, rather than a charge against other comprehensive income as is the case for a for-profit organization. The AICPA continues to assess opportunities to proactively manage this exposure to our financial statements.

Response to Operational Challenges

Although operational challenges such as stabilizing our new IT platform and unbudgeted expense related to our pension plan were encountered, the AICPA responded during Fiscal 2005 by actively reviewing its major expense areas to identify and eliminate non-critical expenditures as well as to find opportunities to deploy resources even more effectively. Further, the AICPA's senior management team meets on a regular basis to review and discuss operational challenges and realign resources where necessary.

FINANCIAL RESULTS

These combined financial statements include the accounts of the AICPA, its subsidiaries, CPA2Biz, Inc. and NorthStar Conferences, LLC, and the related organizations. Below are highlights from our financial statements as of and for the period ended July 31, 2005. The AICPA is not responsible for any liabilities or other obligations of CPA2Biz or the related organizations included in the consolidated financial statements.

- Total assets on a combined basis were \$200.6 million in 2005 compared to \$177.1 million in 2004. The increase is primarily due to higher marketable securities and higher net deferred costs related to the computerized CPA exam.

- Total liabilities on a combined basis were \$154.6 million in 2005 compared to \$154.8 million in 2004. Although overall liabilities were slightly lower, accounts payable and other liabilities decreased due to the reversal of accrued dividends on CPA2Biz (see below) but was offset by higher advance dues attributable to the timing of the mailing of the Fiscal 2006 dues notices and a long-term debt facility to help fund the computerized CPA exam.

- Operating revenue on a combined basis was \$164.7 million in 2005 compared to \$157.3 million in 2004. This revenue increase is primarily attributable to higher dues revenue associated with an increase in membership dues and a positive performance from continuing professional education (CPE) products, especially group study sales in conjunction with state CPA societies. The AICPA also made available its publication line of business to allow both the Public Company Accounting Oversight Board (PCAOB) and FASB copyright access to some of the AICPA's publications in an effort to better serve the public interest and the needs of our membership.

- Operating expenses on a combined basis were \$170.4 million in 2005 compared to \$161.2 million in 2004. The increase is due predominately to higher pension costs related to a reduction in the assumed discount rate and higher labor costs associated with business normalization related to the MSP platform.

- From a cash flow perspective, cash provided by operating activities was \$14.5 million as compared to cash used in operating activities of \$2.7 million in 2004. This increase is primarily attributable to higher advance dues. Cash used in investing activities was \$18.5 million in 2005 and \$16.7 million in 2004 due primarily to the computerized CPA exam. Cash provided by financing activities totaled \$9.3 million in 2005 and \$17.3 million in 2004 due primarily to the funding of the computerized CPA exam associated with the proceeds of long-term debt, offset by the repayment of outstanding amounts owed. Net cash increased in 2005 by \$5.2 million versus a decrease of \$2.1 million in 2004 primarily due to these activities.

CPA2Biz
CPA2Biz posted its third consecutive year of improving results, and achieved profitability this past fiscal year with a net income of $150,000 — a significant milestone. This achievement was driven by revenue growth in the new CPA2Biz business lines and a reduction in depreciation expense. In addition, CPA2Biz now has positive shareholders' equity due to the modification of the preferred stock which, amongst other changes, eliminated the mandatory redemption and cumulative dividend features of the CPA2Biz preferred stock, and resulted in the reversal of approximately $19 million of previously accrued dividends. Another result of the modification is that the AICPA's voting percentage will exceed 50% in perpetuity unless the AICPA approves a transaction to issue more voting stock to an investor other than itself.

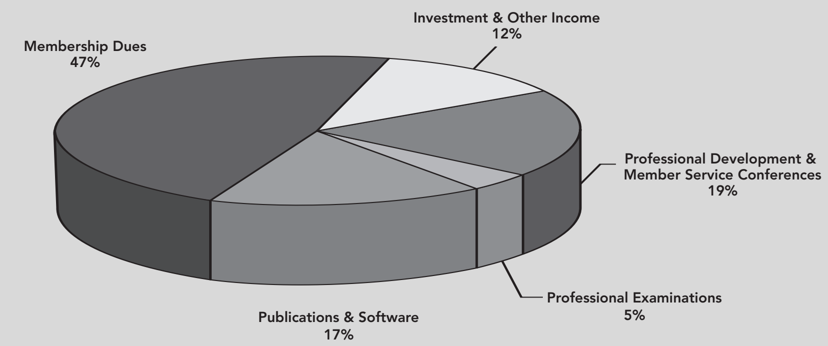
Competition in the Marketplace
In Fiscal 2006, the AICPA anticipates increased competition in the CPE marketplace due to the numerous CPE providers that have entered the market over the last few years. The AICPA will be working diligently to identify and execute on strategies in our publication and conference business lines to combat this increased competition and provide our members with the necessary tools and information in the new regulatory environment, all while remaining steadfast in serving its members with the highest quality CPE products and services.

CONCLUSION

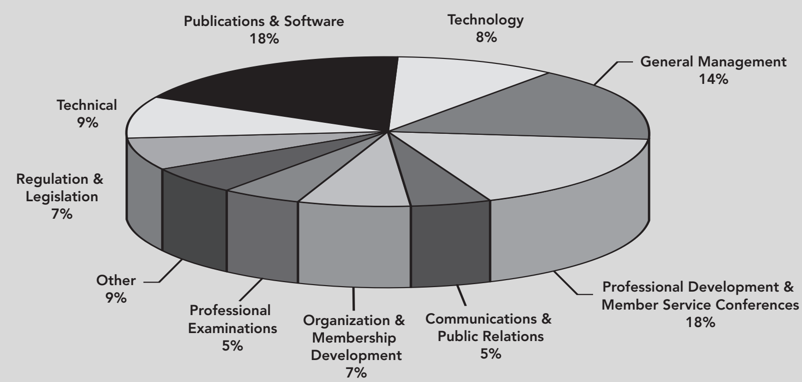
The AICPA will continue its focus on serving the public interest and supporting our members in achieving the highest ethical and technical standards. Expanding on the initiatives outlined above, we will build on the past year's progress in enhancing the profession's image, raising the bar on audit quality, addressing private company financial reporting and continuing our efforts to improve audit quality. Although the AICPA increased its overall long-term debt position in Fiscal 2005, giving consideration to the matter discussed more fully in Note 15, management is confident that the AICPA has sufficient liquidity and working capital to meet its needs in the upcoming fiscal year.

During Fiscal 2005, the AICPA implemented operational changes to increase efficiency and will continue to explore other near and long-term opportunities to reduce expenses while maintaining a high level of member service — all with the goal of ensuring that our members have the best possible professional and personal experience with the AICPA.

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, except as discussed in the following paragraph, the Institute believes that, as of July 31, 2005, its internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition met those criteria.

As of July 31, 2005, the Institute noted that certain controls needed to reasonably prevent unauthorized access to information databases hosted by an external application service provider were not sufficient. The Institute ensured that the application service provider immediately secured the databases. In addition, the Institute is evaluating other application service providers that will provide levels of security over unauthorized access that either meet or exceed industry best practices. The Institute also noted that the timeliness of certain account reconciliations, and the requisite expertise over certain reconciliation processes, were insufficient during the normalization of our new enterprise-wide platform. The Institute has worked to ensure that all reconciliations have been completed on a timely basis and that employees have an appropriate understanding of the new system and related operational processes.

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, CPA
President and CEO

Anthony J. Pugliese, CPA-CITP
Senior Vice President –
Finance and Administration

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, except for the material weaknesses described therein, 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, 2005, 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.

Controls over safeguarding of assets against unauthorized acquisition, use or disposition, as described in management's assertion, related solely to the prevention or timely detection of unauthorized transactions or unauthorized access to assets that could result in losses that are material to the financial statements. Management's assertion, and our opinion on that assertion, does not cover controls to protect against loss of assets arising from inefficiency or management's operating decisions.

A material weakness is a control deficiency, or a combination of control deficiencies, that results in a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weaknesses have been identified and included in management's assertion. As of July 31, 2005, the controls to reasonably ensure that certain information databases hosted by an external application service provider are protected from unauthorized access were not suitably designed. In addition, timeliness of certain account reconciliations and the requisite expertise over certain reconciliation processes was inadequate. These material weaknesses were considered in determining the nature, timing and extent of audit tests applied in our audit of the 2005 financial statements, and this report does not affect our report dated October 14, 2005 on the financial statements.

In our opinion, except for the effects of the material weaknesses described in the preceding paragraph, 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, 2005, 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 14, 2005

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, 2005 and 2004, 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, 2005 and 2004, 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 14, 2005

Financial Statements
July 31, 2005 and 2004

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND RELATED ORGANIZATIONS

COMBINED STATEMENTS OF FINANCIAL POSITION JULY 31,

	2005	2004
	($000)	
ASSETS:		
Cash	**$ 8,106**	$ 2,919
Marketable securities	**100,438**	86,310
Accounts and notes receivable (less an allowance for doubtful accounts: 2005, $3,754,000; 2004, $3,174,000)	**8,532**	9,986
Inventories	**1,310**	1,277
Deferred costs and prepaid expenses	**55,486**	47,669
Goodwill	**13,434**	13,434
Other intangible assets	**3,571**	4,700
Furniture, technology and leasehold improvements, net	**9,729**	10,780
Totals	**$200,606**	$177,075
LIABILITIES:		
Accounts payable and other liabilities	**$ 29,459**	$ 48,417
Advance dues	**35,899**	27,427
Unearned revenue	**11,669**	11,826
Line of credit		15,000
Long-term debt	**39,380**	15,122
Deferred rent	**16,076**	16,547
Deferred employee benefits	**22,163**	20,419
Total liabilities	**154,646**	154,758
PREFERRED STOCK AND NET ASSETS:		
Preferred stock of C2B	**87,354**	82,354
Net assets:		
Unrestricted:		
AICPA and Related Organizations	**42,804**	40,495
C2B	**(84,846)**	(101,180)
Total unrestricted	**(42,042)**	(60,685)
Permanently restricted	**648**	648
Total net assets	**(41,394)**	(60,037)
Total preferred stock and net assets	**45,960**	22,317
Totals	**$200,606**	$177,075

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,

	2005	2004
	($000)	
CHANGES IN UNRESTRICTED NET ASSETS:		
Operating revenue:		
Dues	**$ 78,012**	$ 71,527
Publications and software	**28,328**	27,981
Professional development and member service conferences	**31,711**	31,351
Investment and sundry income	**18,038**	16,645
Professional examinations	**7,386**	8,835
Contributions	**1,241**	985
Total operating revenue	**164,716**	157,324
Operating expenses:		
Program services:		
Publications and software produced for sale	**30,113**	28,559
Professional development and member service conferences	**30,663**	28,658
Member services:		
Regulation and legislation	**12,491**	15,182
Technical	**16,005**	17,068
Publications	**1,755**	1,842
Other	**6,811**	7,239
Professional examinations	**9,272**	6,058
Communications and public relations	**9,197**	10,090
Support and scholarships	**3,184**	3,305
Assistance programs	**645**	706
Supporting activities:		
General management	**24,090**	16,771
Organization and membership development	**12,612**	7,900
Technology	**13,604**	17,794
Total operating expenses	**170,442**	161,172
Deficiency of operating revenue over expenses	**(5,726)**	(3,848)
Gains on marketable securities:		
Realized	**4,690**	1,625
Unrealized	**4,979**	4,144
Totals	**9,669**	5,769
Change in unrestricted net assets before minority interest	**3,943**	1,921
Minority interest, inclusive of preferred stock dividend reversals of $19,517,000 in 2005 and dividends of $6,199,260 in 2004	**14,700**	(7,637)
Change in unrestricted net assets	**18,643**	(5,716)
Unrestricted net assets, beginning of year	**(60,685)**	(54,969)
Unrestricted net assets, end of year	**$(42,042)**	$ (60,685)

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

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND RELATED ORGANIZATIONS

COMBINED STATEMENTS OF PREFERRED STOCK AND NET ASSETS
JULY 31,

($000)

	AICPA and Related Organizations	C2B	TOTAL
2005:			
Preferred stock		**$ 87,354**	**$ 87,354**
Net assets:			
Unrestricted	**$42,804**	**(84,846)**	**(42,042)**
Permanently restricted	**648**		**648**
Total net assets	**43,452**	**(84,846)**	**(41,394)**
Totals	**$43,452**	**$ 2,508**	**$ 45,960**
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

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 CASH FLOWS
YEARS ENDED JULY 31,

	2005	2004
	($000)	
INCREASE (DECREASE) IN CASH:		
Operating activities:		
Cash received from members and customers	**$ 171,370**	$138,558
Interest and dividends received	**2,893**	3,091
Cash paid to suppliers, employees and others	**(157,754)**	(142,749)
Interest paid	**(1,189)**	(1,004)
Income taxes paid	**(848)**	(578)
Net cash provided by (used in) operating activities	**14,472**	(2,682)
Investing activities:		
Payments for purchase of amortizable assets	**(13,001)**	(16,209)
Payments for purchase of furniture and technology	**(1,083)**	(4,961)
Payments for purchase of marketable securities	**(57,858)**	(51,630)
Proceeds from sale of marketable securities	**53,399**	56,144
Net cash used in investing activities	**(18,543)**	(16,656)
Financing activities:		
Proceeds (repayments) of line of credit, net	**(15,000)**	15,000
Proceeds of long-term debt	**25,000**	3,000
Repayment of long-term debt	**(742)**	(736)
Net cash provided by financing activities	**9,258**	17,264
Net increase (decrease) in cash	**5,187**	(2,074)
Cash, beginning of year	**2,919**	4,993
Cash, end of year	**$ 8,106**	$ 2,919
RECONCILIATION OF CHANGE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Change in unrestricted net assets	**$ 18,643**	$ (5,716)
Adjustments to reconcile change in unrestricted net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	**8,114**	10,867
Loss on abandonment of tenant improvements		252
Gain on sale of marketable securities	**(4,690)**	(1,625)
Amortization of unearned revenue	**(524)**	(544)
Unrealized gain on marketable securities	**(4,979)**	(4,144)
Minority interest	**(14,700)**	7,637
Provision for:		
Losses on accounts and notes receivable	**557**	1,025
Obsolete inventories	**28**	(168)
Deferred rent	**(471)**	4,034
Deferred employee benefits	**2,105**	902
Changes in operating assets and liabilities:		
Accounts and notes receivable	**897**	584
Inventories	**(61)**	(312)
Deferred costs and prepaid expenses	**339**	(39)
Accounts payable and other liabilities	**736**	1,301
Advance dues	**8,472**	(14,944)
Unearned revenue	**367**	(1,179)
Deferred employee benefits	**(361)**	(613)
Total adjustments	**(4,171)**	3,034
Net cash provided by (used in) operating activities	**$ 14,472**	$ (2,682)

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

Notes to Combined Financial Statements July 31, 2005 and 2004

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 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 13). 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 cash, temporary cash investments, marketable debt securities, trade receivables and derivative financial instruments used in hedging activities. The Institute maintains cash balances with high-credit quality financial institutions to limit its credit exposure. At times, the Institute's cash exceeds the current insured amount under the Federal Deposit Insurance Corporation. 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. The Institute is exposed to loss in the event of nonperformance by the counterparty on the interest rate swap contract used in hedging activities. The counterparty is a large financial institution and the Institute does not anticipate nonperformance by the counterparty. Consequently, as of July 31, 2005, 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.

The Institute utilizes derivative financial instruments to reduce interest rate risk. The Institute does not hold or issue derivative financial instruments for trading purposes. Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), establishes accounting and reporting standards for derivative instruments and hedging activities. As required by SFAS 133, the Institute recognizes all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. Changes in the fair value of those instruments are reported in changes in net assets.

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 $9,608,000 and $9,881,000 for the years ended July 31, 2005 and 2004.

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 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, primarily attributable to acquisitions made by C2B. 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 pursuant to Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

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.

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 2004 financial statements have been reclassified to conform with the current year's presentation.

3. MARKETABLE SECURITIES

Marketable securities consist of:

	2005	2004
	($000)	
U.S. Treasury obligations	**$13,625**	$14,245
Bonds and notes	**25,990**	23,916
Equities	**60,823**	48,149
Total fair value	**100,438**	86,310
Unrealized gains	**8,009**	3,032
Total cost	**$92,429**	$83,278

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

Investment income consists of:

	2005	2004
	($000)	
Dividends and interest	**$ 2,884**	$ 3,113
Realized gains	**4,690**	1,625
Unrealized gains	**4,979**	4,144
	$12,553	$ 8,882

4. INVENTORIES

Inventories consist of:

	2005	2004
	($000)	
Paper and material stock	**$ 163**	$ 188
Publications in process	**156**	160
Printed publications and course material	**991**	929
	$ 1,310	$ 1,277

5. FURNITURE, TECHNOLOGY AND LEASEHOLD IMPROVEMENTS

Furniture, technology and leasehold improvements consist of:

	2005	2004
	($000)	
Furniture	**$ 8,695**	$ 8,545
Technology	**32,585**	32,111
Leasehold improvements	**14,006**	13,780
	55,286	54,436
Less accumulated depreciation and amortization	**45,557**	43,656
	$ 9,729	$10,780

6. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets are as follows:

	2005	2004
	($000)	
Goodwill	**$13,434**	$13,434
Other intangible assets:		
Trade name	**$ 1,783**	$ 1,783
Contracts and technology	**5,645**	5,645
Less accumulated amortization	**3,857**	2,728
Contracts and technology, net	**1,788**	2,917
	$ 3,571	$ 4,700

Amortization expense on intangible assets with definite lives amounted to approximately $1,129,000 for each of the years ended July 31, 2005 and 2004. Estimated amortization expense in each of the years subsequent to July 31, 2005 is approximately $1,129,000 in 2006 and $659,000 in 2007.

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. For the years ended July 31, 2005 and 2004, goodwill was not impaired.

7. LONG-TERM DEBT

Long-term debt consists of the following:

	2005	2004
	($000)	
AICPA (A)	**$ 1,200**	$ 1,200
AICPA (B)	**10,000**	10,000
AICPA (C)	**25,000**	
AICPA (D)		382
C2B (E)	**3,180**	3,540
	$39,380	$15,122

(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 $537,000.

(B) Noninterest bearing note payable to Prometric, Inc. (Prometric — see Note 8). Subsequent to July 31, 2005, $1,429,000 was repaid.

(C) Term note effective July 29, 2005 payable in 11 consecutive quarterly installments of $2,083,333 commencing on October 31, 2009 and a final payment of $2,083,337 due at maturity on July 31, 2013. Interest is payable at the prime rate or the rate of interest fixed at LIBOR plus 1% at the AICPA's option beginning on October 31, 2005. Amounts outstanding under the term note are collateralized by an account holding marketable securities, which may not fall below 133% of the sum of the outstanding principal balances of the term note and line of credit (see Note 8). At July 31, 2005, the account has securities with a market value of $68,000,000. The note is guaranteed by NorthStar.

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

(E) The unsecured note bears interest at 5% and is payable in various installments through May 2008. During 2005, C2B satisfied the accrued interest in connection with this note of $177,000 through the issuance of 41,549 shares of common stock of C2B. The AICPA has no obligation under the note.

Based on borrowing rates currently available, the fair value of long-term debt at July 31, 2005 approximates $37,000,000. At July 31, 2004, fair value approximated carrying value.

Principal amounts due under the above obligations in each of the five years subsequent to July 31, 2005 and thereafter are as follows:

YEAR ENDING JULY 31,

	($000)
2006	$ 3,617
2007	2,639
2008	2,639
2009	1,429
2010	9,762
Thereafter	19,294

Effective July 29, 2005, the Institute entered into an interest rate swap contract to reduce the impact on interest expense of fluctuations in interest rates on $25,000,000 notional amount of its variable rate debt. The contract, designated as a cash flow hedge, effectively converted the variable rate to a fixed rate of 5.75%. At July 31, 2005, there was no liability or asset relating to the fair value of the interest rate swap contract as the agreement was entered into at market terms at inception.

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, a subsidiary of one of C2B's preferred stockholders. 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, 2005, approximately $47,620,000 in costs have been incurred. During the years ended July 31, 2005 and 2004, the AICPA recognized revenue of approximately $7,126,000 and $1,636,000. Accordingly, costs equal to the revenue recognized have been expensed. At July 31, 2005, the balance of $38,858,000 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. Subsequent to July 31, 2005, approximately $1,429,000 was paid to reduce the $10,000,000 line of credit.

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 (March 2005), the actual number of test hours were calculated to determine the final quantity adjusted pricing for the year, which totaled $2,726,000. This amount was accrued as of July 31, 2005 and paid in August 2005. In addition, the AICPA accrued $1,063,000 as of July 31, 2005 to reflect the quantity adjusted pricing for the period from April 2005 through July 2005. The full amount of $3,789,000 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 in 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 $16,076,000 and $16,547,000 (inclusive of landlord reimbursement for tenant improvements and other costs of $4,125,000 incurred in 2004 related to the New York City office relocation) as of July 31, 2005 and 2004. In connection with the New York City office relocation, the AICPA recorded $252,000 in 2004 for abandoned tenant improvements, net of deferred rent.

Minimum rental commitments on noncancelable real estate and equipment leases in effect as of July 31, 2005, exclusive of future escalations for real estate taxes and building operating expenses, are:

YEAR ENDING JULY 31,

	($000)
2006	$ 10,189
2007	9,575
2008	9,543
2009	9,478
2010	9,049
Years subsequent to 2010	34,764
	$82,598

Rental expense for the years ended July 31, 2005 and 2004 was $12,423,000 and $12,503,000.

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 $10,489,000 as of July 31, 2005. Sublease income amounted to $1,398,000 for each of the years ended July 31, 2005 and 2004.

Line of Credit

The AICPA has available a line of credit with a bank for short-term borrowings of up to $20,000,000 at the bank's prevailing interest rate. Amounts outstanding under the line of credit are collateralized by an account holding marketable securities (see Note 7). There were no outstanding borrowings at July 31, 2005. The line of credit expires on January 31, 2006.

Litigation

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 hired before May 1, 2003. The following table sets forth the plan's funded status and the amounts recognized in the statement of financial position:

	May 1,	
	2005	2004
	($000)	
Projected benefit obligation	**$78,121**	$67,815
Plan assets available for benefits at fair value	**55,516**	52,208
Projected benefit obligation in excess of plan assets at end of year	**$22,605**	$15,607
Accrued pension cost	**$(9,836)**	$ (8,189)

Net pension expense was $1,854,000 and $2,201,000 for the years ended July 31, 2005 and 2004. Benefits paid amounted to $3,606,000 and $3,436,000. The Institute made contributions of $3,766,000 in 2005 and expects future contributions to approximate pension expense.

Economic assumptions:	**2005**	2004
Discount rate	**5.90%**	6.50%
Expected long-term rate of return on plan assets	**8.50%**	8.50%
Rate increase in future compensation levels	**4.00%**	4.00%

As of the May 1, 2005 measurement date, the Institute is utilizing a yield curve methodology to determine its discount rate under SFAS No. 87 and SFAS No. 106. This methodology uses a weighted average yield to determine the plan's discount rate by forecasting the plan's expected benefit payments by year. Prior years were based on the existing Moody's discount rate.

Estimated future benefit payments reflecting expected future service for each of the five years subsequent to July 31, 2005 and in the aggregate for the five years thereafter are as follows:

YEAR ENDING JULY 31,

	($000)
2006	$ 3,010
2007	3,160
2008	3,270
2009	3,380
2010	3,530
2011–2015	20,860

	Target Allocation	Percentage of Plan Assets at May 1,	
	2006	**2005**	2004
Plan assets:			
Domestic equity securities	35–60%	**51%**	48%
International investments	10–25%	**14**	17
Fixed income	20–45%	**29**	32
Other	0–10%	**6**	3
		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 April 2005.

During the year ended July 31, 2005, the Institute recorded a minimum pension liability of $3,559,000, as required by Statement of Financial Accounting Standards No. 87, *Employer's Accounting for Pensions* (SFAS No. 87). The adjustment is reflected as an increase in deferred employee benefits of $3,559,000 in the statement of financial position and as an increase in general management expense of $3,559,000 in the 2005 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 of $3,139,000 recorded in the prior year was reversed as prescribed by SFAS No. 87 and is reflected in general management expense. The reversal occurs when the plan assets and accrued pension liabilities exceed the accumulated benefit obligation and resulted in a decrease of pension expense of $1,826,000 and the elimination of an intangible asset of $1,313,000.

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 $1,139,000 and $1,044,000 for the years ended July 31, 2005 and 2004.

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, 2005 and 2004 was $456,000 and $673,000.

The accumulated postretirement obligation as of May 1, 2005 and 2004 was $12,236,000 and $10,948,000. Accrued postretirement benefit costs included in the accompanying statements of financial position were $12,327,000 and $12,488,000.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 5.9% in 2005 and 6.5% in 2004. The weighted average health care cost trend rate used in measuring the postretirement benefit expense is 12.0% graded down to 5.0% by 1.0% per year.

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 2005 and 2004 paid $617,000 and $610,000.

10. CPA2BIZ, INC.

As discussed in Note 1, C2B is the exclusive online and offline marketing agent for certain AICPA products and services and maintains the e-commerce Web site (www.cpa2biz.com) for the sale of AICPA products. In return for these services, C2B receives commissions on sales of products marketed for the AICPA. However, the AICPA has control of all product and service-related assets, and the intellectual property incorporated in them. C2B applies Emerging Issues Task Force Issue No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent* to account for revenue on sales of AICPA products. The net amount is the amount charged to the customer less the amount paid to the supplier, which in most cases is the AICPA.

In addition to providing the AICPA with marketing services, C2B also receives fees for providing certain technology services to the AICPA such as integration of the C2B Web site with the AICPA back-end systems. Further, C2B manages and supports the marketing of all of the AICPA's affinity programs, except for the insurance and retirement programs, and shares in the affinity revenue. Lastly, C2B has developed a new portfolio of products and services unrelated to the AICPA including, among other things, Business Solutions programs, e-newsletters, a Career Center job board and online third party product stores.

As of July 31, 2005, the AICPA controls approximately 54% of C2B's voting rights. In accordance with C2B's amended shareholder agreement, the AICPA's voting percentage will exceed 50% in perpetuity, subject to the AICPA's approval to a transaction in which additional shares are issued to an investor. Notwithstanding the AICPA's controlling interest in C2B, the AICPA does not guarantee any of the obligations nor is it responsible for any of C2B's liabilities. As of July 31, 2005, the primary source of funding for C2B has been the preferred stockholders; the AICPA has only paid a de minimus amount of cash for its stock.

Summarized financial information of C2B as of and for the years ended July 31, 2005 and 2004 is as follows:

	2005	2004
	($000)	
Total assets	**$21,037**	$21,552
Total liabilities	**$14,415**	$34,874
Mandatorily redeemable preferred stock (A)		82,354
Preferred stock (A)	**87,354**	
Common stockholders' deficiency	**(80,732)**	(95,676)
Total liabilities and equity	**$21,037**	$21,552
Total revenue (B)	**$14,284**	$13,327
Net income (loss)	**$ 150**	$ (3,144)

(A) As more fully described below, the terms of preferred stock were amended to, among other things, eliminate the mandatory redemption feature.

(B) Includes approximately $8,694,000 and $8,591,000 in commissions for services rendered for marketing and promotion of certain AICPA product lines and approximately $5,590,000 and $4,736,000 for Business Solutions, affinity, technology services and other business lines for the years ended July 31, 2005 and 2004.

As of July 31, 2005, 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 have been designated 8% Series A Convertible Preferred Stock (Series A) and 8,000,000 shares designated 8% Series B Convertible Preferred Stock (Series B).

As of July 31, 2005, the 8,000,000 authorized shares of preferred stock which are not considered to be either Series A or Series B 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 have received the dividends to which they are entitled.

During 2005, the stockholders of C2B approved amendments to the terms of the Series A and Series B. The amendments provide, among other things, for the elimination of the mandatory redemption provision and the reversal of all previously accrued dividends. Accordingly, during the year ended July 31, 2005, previously accrued dividends of approximately $19,517,000 were reversed. Series A and Series B continue to maintain their rights to a liquidation preference whereby the Series A is senior to Series B and both are senior to Common Stock. Series A and Series B also maintain their rights to an 8% dividend, when and if declared by the Board of Directors of C2B as well as a conversion right into Common Stock at the option of the holder, and anti-dilution protection. The holders of Series A and Series B vote with the holders of the Common Stock as if they were a single class. In addition, the holders of Series A and Series B have special voting rights relating to the creation of more senior preferred stock.

During 2004, $6,199,260 of 8% preferred stock dividends were accrued but not paid.

Certain investors of Series A had received a fully vested warrant to purchase an additional 2,484,356 shares of Series A for an aggregate exercise price of $62. The full benefit of this arrangement of $9,873,000 was to be recognized as "deemed dividends" over the anticipated life of the Series A. C2B recorded a deemed dividend of $1,437,768 during the year ended July 31, 2004. During 2005, the warrants were exercised and, accordingly, the remaining benefit of this arrangement of $5,000,420 was recorded as a deemed dividend.

Concurrent with the amendments to the terms of the Series A and Series B, C2B and the AICPA agreed to amend the note receivable from C2B, which is fully collateralized by C2B's Web site and bears an 8% interest rate. The interest payment date was amended from one lump-sum on December 31, 2007 to monthly cash payments beginning in July 2005 and the due date was extended from December 31, 2007 to December 31, 2014. Prior to the amendment, C2B was required to issue additional shares of Common Stock to the AICPA for every December 31 on which the note was outstanding. Accordingly, the AICPA received an additional 23,468 shares of C2B Common Stock during 2005. The principal balance of the note of $4,344,000 and related accrued interest of $897,822 have been eliminated in consolidation.

C2B subleases space from the AICPA in New York and New Jersey and is charged by the AICPA the same pro-rata dollar amount the AICPA pays under its lease. The charges to C2B related to this space were approximately $256,000 and $219,000 during 2005 and 2004. These charges have been eliminated in consolidation.

At July 31, 2005, C2B has deferred tax assets of approximately $49,000,000 which arise primarily from net operating loss carryforwards for Federal income tax purposes of approximately $126,000,000 expiring through 2024 and certain other temporary differences. Included in these net operating losses are pre-acquisition losses 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, 2005. 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.

C2B has two stock option plans for employees. None of the options are held by employees of the AICPA. There have been no grants in the last two years and the only activity has been cancellations after employee terminations. Outstanding options, if all were to be exercised, would dilute the existing holders of C2B voting stock in the aggregate by approximately 3%. If exercised, the options would become C2B Common Stock and be classified as minority interest in the accompanying financial statements.

As of July 31, 2005 and 2004, there were 2,442,178 and 2,456,746 options outstanding, with exercise prices ranging from $.37 per share to $5.12 per share.

Pro-forma compensation charges, based upon the fair value at the grant date for awards under the plans made prior to August 1, 2003 consistent with the methodology prescribed under SFAS No. 123, were not material.

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 CPAs located throughout the United States.

Summarized financial information of SSLLC as of and for the years ended July 31, 2005 and 2004 is as follows:

	2005	2004
	($000)	
Total assets	**$ 267**	$ 442
Total liabilities	**1,163**	702
Members' deficiency	**$ (896)**	$ (260)
Net loss	**$ (636)**	$ (570)
AICPA's share of net loss	**$ (318)**	$ (285)

The AICPA's recorded investment in SSLLC remains at zero as of July 31, 2005.

In December 2003, SSLLC and the AICPA implemented an enterprise resource software package called the Member Solutions Partnership (MSP). MSP was designed to provide the AICPA and participating state societies with a uniform operations platform including a shared membership database and SSLLC was to provide software maintenance, hosting and other support services for the AICPA and SSNI. Included in the statements of operations of SSLLC for the years ended July 31, 2005 and 2004 are reimbursements from the AICPA of $3,276,000 and $2,071,000 for certain of SSLLC's expenses related to MSP.

In July 2005, the six state societies then participating in MSP made a decision to discontinue their involvement based on software design issues that prevented their optimal use of MSP. However, these design concerns did not prevent the AICPA from using the MSP platform for its intended purpose.

Based on the decision of the participating state societies to withdraw from MSP, SSLLC decided to discontinue future state society adoption until the design issues were addressed. At July 31, 2005, SSLLC had a liability of $290,000 to refund prepaid deposits made by state societies who were interested in adopting MSP.

12. PREFERRED STOCK AND NET ASSETS

Preferred stock and net assets and changes therein for the years ended July 31, 2005 and 2004 follow:

	Balance, August 1, 2003	Increase (Decrease)	Balance, July 31, 2004	**Increase (Decrease)**	**Balance, July 31, 2005**
			($000)		
Preferred stock of C2B	$ 80,916	$ 1,438	$ 82,354	**$ 5,000**	**$ 87,354**
Net assets:					
Unrestricted:					
AICPA	26,334	4,971	31,305	**1,170**	**32,475**
C2B	(90,245)	(10,935)	(101,180)	**16,334**	**(84,846)**
ARA	966	81	1,047	**151**	**1,198**
Benevolent Fund	4,298	361	4,659	**736**	**5,395**
Foundation	3,678	(194)	3,484	**252**	**3,736**
	(54,969)	(5,716)	(60,685)	**18,643**	**(42,042)**
Restricted:					
Foundation:					
Library Fund	648		648		**648**
Total net assets	(54,321)	(5,716)	(60,037)	**18,643**	**(41,394)**
Total preferred stock and net assets	$ 26,595	$ (4,278)	$ 22,317	**$ 23,643**	**$ 45,960**

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

13. 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 Financial Accounting Standards Board is provided through payments by Securities and Exchange Commission (SEC) registrants. The ARA did not fund any research during the years ended July 31, 2005 and 2004. The ARA's Board of Trustees is exploring alternative ways of continuing to fulfill its mission.

14. OTHER RELATED PARTY TRANSACTIONS

In accordance with Statement of Financial Accounting Standards No. 57, *Related Party Disclosures*, the AICPA has identified the following transaction. The AICPA provides general and administrative services for the American Institute of Certified Public Accountants Insurance Trust (Trust). The AICPA received net revenue of $3,655,000 and $2,926,000 from the Trust for the years ended July 31, 2005 and 2004.

15. OTHER MATTERS

During May 2005, the AICPA began exploring the economics of moving a significant portion of its operations to a more cost effective environment than what is currently available in the New York Metropolitan area. After significant analysis supplemented by the guidance of experts in the real estate, human resource and other functional areas, the AICPA management team has recommended, and the Board of Directors has approved, a plan to relocate a significant portion of the AICPA's operations to the Southern Atlantic region of the United States. This decision was based on business factors including the availability of a required workforce, employee quality of life considerations, the ability to achieve significant cost savings after the initial move, and other considerations. It is estimated that the relocation would result in a savings over a fifteen year period of approximately $169,000,000 (net of all year one relocation costs) versus staying in Jersey City, New Jersey, and would net an average annual savings over the same period of approximately $11,000,000.

This recommendation will be brought to the AICPA's Council during its annual meeting in October 2005 for its consideration and direction.

If approved, the relocation would result in a potential loss to the AICPA of approximately $49,000,000 (considered in the $169,000,000 savings above) in the year the move is executed, which is currently expected to occur during the year ending July 31, 2007. Additionally, the relocation would represent an additional cash need above what could be supported by normal operations of approximately $33,000,000, which is expected to be funded by a new lending facility.

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