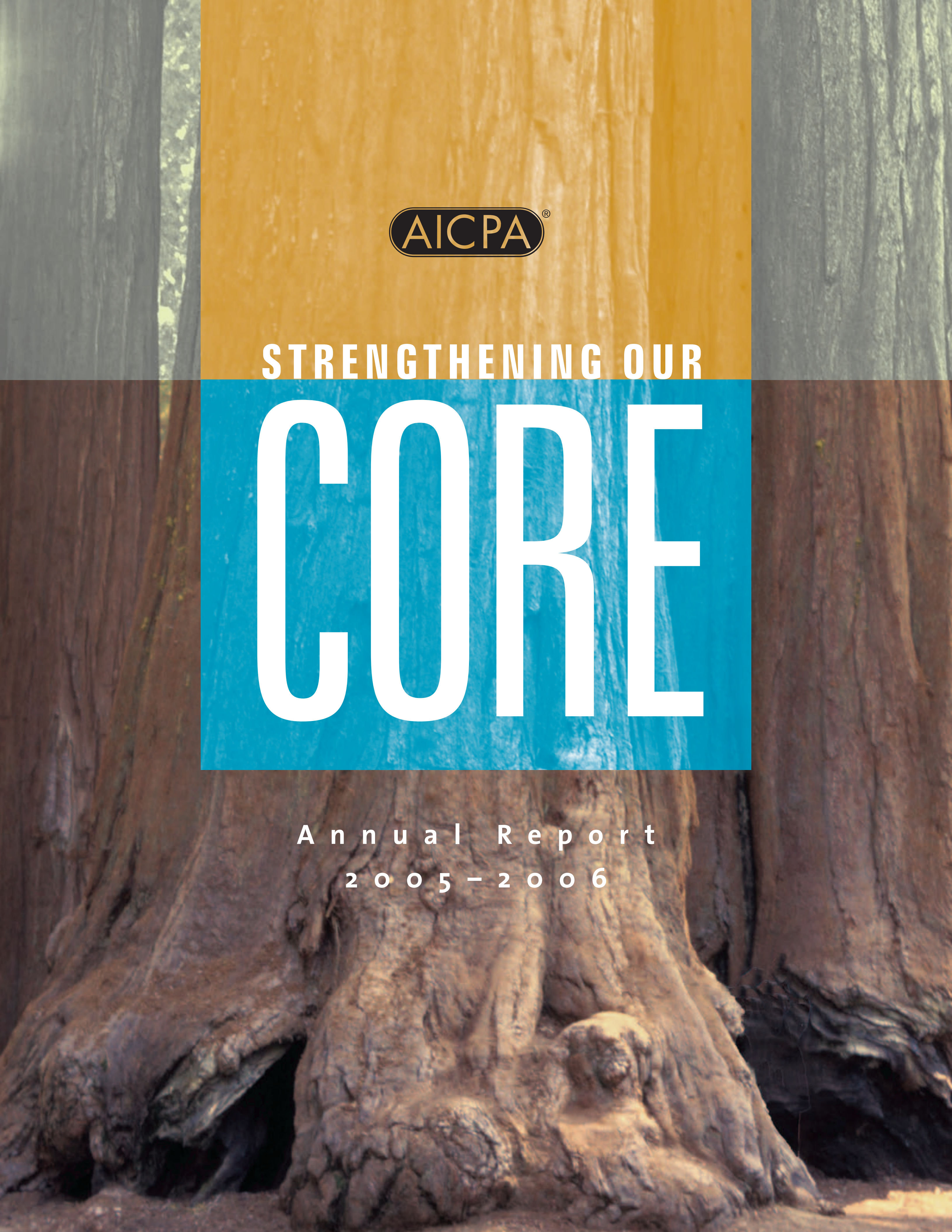
2006

AICPA annual report 2005-06; Strengthening our core

American Institute of Certified Public Accountants



AICPA®

STRENGTHENING OUR CORE

Annual Report 2005–2006

AICPA®

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A MESSAGE TO MEMBERS

From the Chair and President

Barry C. Melancon, CPA
President and CEO

Leslie A. Murphy, CPA
Chair

"Strengthening the core" has become a common catch phrase among exercise enthusiasts. But there's good reason this phrase has caught on. Strengthening the core means building from the center of power. In the past year, that's exactly what the CPA profession has done. It has focused on the source of strength and energy for CPAs—our core values—to fuel the initiatives and activities we celebrate this year. By focusing on integrity, objectivity and competence, we reinforced an already strong profession.

The profession has made tremendous progress on many fronts. One of our core areas is keeping this profession vibrant for those practicing today and for generations to come. Recruitment, retention and advancement—our accomplishments in these areas measure where the profession has been, where the profession is now and where the profession is going.

Thankfully, young people starting out as CPAs today have numerous opportunities. They benefit from excellent education, broad business knowledge and a strong reputation for objectivity and integrity. At the same time, the high demand for professionals with these skills combined with the rigors of a career in accounting mean that attracting and keeping qualified people must remain a priority. Several new efforts this year focused on that goal. Research into the work/life needs of men and women helps the profession enable firms and organizations to retain staff and enhance women's career advancement. To address newer CPAs' professional concerns, the AICPA launched the Young CPA Network in July 2006. The multi-year student recruitment campaign has paid off, resulting in increased college enrollments in accounting and movement toward the CPA credential, as well as increased volume among high school students planning to pursue accounting in college.

Another core area is our public service mission. No CPA ever forgets that the "P" in CPA stands for "public." The public's trust and respect for CPAs is extremely critical to our profession's success. We had a very good year in this regard. Investors, business executives and the public rank our profession highly among trusted professions, and research shows the profession continues to gain ground in image ratings among the general public. Improved relations with the national and trade media have supported this trend and resulted in the profession becoming a resource of information on financial issues. Media outreach and the CPA Ambassador Program have highlighted the outstanding work CPAs do every day to help businesses, clients, employers and others effectively navigate financial matters. The newly formed Special Committee on Mobility is working to ease CPAs' ability to practice across state lines to serve

The AICPA's mission is to provide members with the resources, information and leadership that enable them to perform valuable services in the highest professional manner to benefit the public as well as employers and clients. In fulfilling its mission, the AICPA gives priority to those areas where public reliance on CPA skills is most significant.

clients and employers, unfettered by regulations that do not serve the public interest.

CPAs individually and collectively have strengthened their community ties by working to advance financial literacy among Americans at every stage of life. Thanks to the profession's 360 Degrees of Financial Literacy effort, thousands of CPAs have accessed and produced extensive, valuable information for the American public to use to raise their financial awareness and understanding of personal finance issues.

Our great profession responded when several hurricanes wreaked havoc along the Gulf Coast in summer 2005. Through the AICPA, state CPA societies and government agencies, CPAs reached out to help each other and disaster victims through the difficult task of recovery.

Strengthening our core also has led to continuing enhancements of our ethics processes, both in the rules that govern the delivery of services and in how CPAs learn from their colleagues. Through new report standards, a simplified peer review process and a move toward providing regulators with greater access to peer review results, we honor the trust bestowed upon our great profession long ago.

Upholding the hallmarks of our profession also means keeping the standards that guide the profession's work contemporary and relevant. The AICPA issued a suite of standards on risk assessment geared toward enhancing the audit process regarding non-issuer financial statements. Another standard addressed communication of internal control matters—a highly important function in the post-Sarbanes-Oxley era. Proposed changes in business valuation services provide guidance to CPAs working in that growing area. In addition, the AICPA continues to explore with the Financial Accounting Standards Board how financial reporting standards should differ between public companies and for-profit, private entities—an issue the profession has been debating for more than 30 years.

Tax initiatives this year ranged from testimony before Congress on a multitude of issues, to advocacy to help reduce burdens on both tax practitioners and taxpayers, to extensive media outreach that helped the public better understand taxes. Collectively, these activities support and increase awareness of CPAs' work in this important service area.

As competency also is a critical element of our core, the AICPA continued to help members stay current and develop expertise in particular practice areas. Our specialized knowledge centers, created last year, sparked members' interest in niche services and bolstered the skills and talents of those already established in those areas. For instance, members in business and industry looked to the Financial Management Center for tools and resources to move organizations forward. Small accounting firms were able to get information on a range of issues, such as succession planning and staffing.

Ultimately, our goals continue to be providing our members with premium offerings and delivering them with top-notch service. To facilitate the marshaling of resources necessary to position the AICPA for the next century of service to CPAs, the Institute sought to lower costs and improve operational efficiencies. In October 2005, the Institute announced the relocation of a major part of its operations to Durham, North Carolina. Key milestones of the relocation, which began in August 2006 and will be completed in August 2007, are on target in terms of project management, knowledge transition, financial projections and recruitment of staff. A significant period of parallel operations will minimize disruptions in service to the CPAs who depend on us.

We're delighted to bring you this Annual Report highlighting one core message: The CPA profession is strong and has a solid foundation. Integrity, objectivity and competence are the roots from which our profession grows.

Leslie Murphy

Leslie A. Murphy, CPA
Chair

Barry C. Melancon

Barry C. Melancon, CPA
President and CEO

CORE VALUES

Integrity, Objectivity, Competence

The CPA profession has long been known for its defining hallmarks of integrity, objectivity and competence. These values have been the foundation for many of this past year's efforts. From setting new audit standards for non-public companies, to improving the peer review process, to forging ties in the international arena, the AICPA underscored CPAs' commitment to the public trust.

New Standards Enhance Audit Risk Assessment and Internal Controls

The AICPA issued 11 new audit standards this year, eight comprising a new suite of standards targeted toward risk assessment. The standards aim to drive more effective audits of non-public entities through better risk assessments and improved design and performance of audit procedures in response to identified risks. Helping CPAs implement these standards **(www.aicpa.org/risk)**, the AICPA produced an audit risk alert, held presentations and discussions at many conferences throughout the year, created a self-study continuing professional education (CPE) program and developed an audit guide. This series of standards demonstrates the profession's and Institute's leadership in ensuring that auditing continues to evolve to meet the demands of today's and tomorrow's complex business environment.

Since passage of the Sarbanes-Oxley Act in 2002, smaller public companies have been grappling with increased internal control requirements. To help them comply with the Act and find simpler ways to implement internal control systems, the AICPA worked with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to craft new guidance. Issued on July 11, 2006, this supplement to the 1992 guidance uses real-world small company examples to illustrate essential internal control over financial reporting.

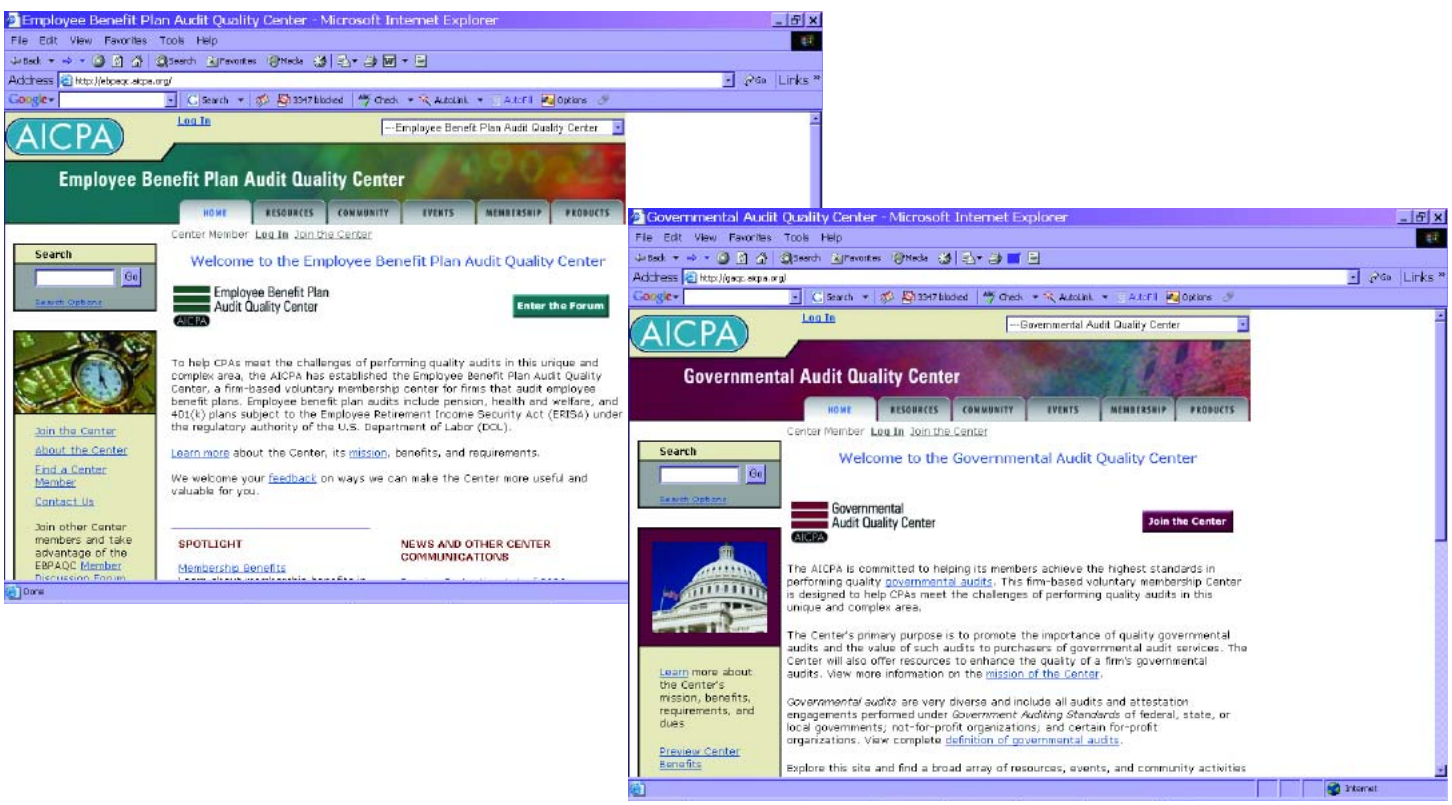
Audit Quality Centers Grow CPAs' Proficiencies

CPA firms involved in audit work—whether for employee benefit plans, governmental and non-profit entities, or public companies—can keep current on audit changes and issues through the three audit quality centers established in the last two years. Member firms access resources and information to ensure high-quality audit performance for the clients, employers, businesses and individuals they serve.

The Employee Benefit Plan Audit Quality Center **(www.aicpa.org/EBPAQC)** boasts more than 1,200 member firms, representing more than 75% of ERISA audits performed annually. Members gain an edge on audit performance through electronic alerts and conference calls. An online forum attracts more than 1,000 participants discussing 500-plus topics, enabling member firms to share experiences and knowledge. A new "Topix Primer Series" helps member firms access timely and helpful analyses of important issues and developments in employee benefit plans. The Center also developed a tool to guide plan sponsors in hiring qualified auditors.

The Governmental Audit Quality Center **(www.aicpa.org/GAQC)** covers audits for state and local governments, not-for-profit organizations, and certain for-profit organizations that receive federal assistance. More than 580 firms, representing approximately 80% of the federal expenditures covered in single audits performed by CPA firms, belong to the Center, demonstrating their commitment to high-quality audits. Electronic Center Alerts provide firm members with up-to-date information on current and regulatory developments. Periodic conference calls and Web casts on specific technical, legislative, regulatory and practice management topics provide members with key resources to enhance audit quality. An online toolkit helps firms market their skills and membership. The Center also works to educate firms, purchasers of governmental audit services and other stakeholders about the importance of audit quality.

Serving 819 enrolled firms, representing nearly 97% of firms engaged in audits of Securities and Exchange Commission public companies, the Center for Public Company Audit Firms **(www.aicpa.org/CPCAF)** continues to move toward a new framework with an expanded mission. By bringing critical stakeholders together to address public interest issues, augmenting intellectual capital and community-building activities among public company auditors, and providing a more credible voice for emerging issues, the new framework will better meet member firms' needs while advancing the quality of public company audits and protecting investors' interests.



The AICPA establishes professional standards; assists members in continually improving their professional conduct, performance and expertise; and monitors such performance to enforce current standards and requirements.

Peer Review Continues to Evolve

With the goal of meeting marketplace demand for increased transparency, the profession has been exploring ways to make peer review reports more accessible to regulators. After extensive examination this past year, including a review of an online poll conducted among AICPA members, a special task force of the AICPA Board of Directors recommended a shorter, more understandable and more usable peer review reporting process. Other recommendations include enhancements to the annual reporting on oversight, expansion of the voluntary public file to provide greater access by state boards of accountancy, and an increase in the number and quality of peer reviewers. These recommendations are being considered by the AICPA Peer Review Board (PRB).

In addition, our governing Council approved expansion of the public (non-CPA) members to serve on the PRB, not to exceed 25%. By broadening its membership, the PRB expects to operate more effectively and gain valuable perspective to help it better address changes in practice and in the legislative and regulatory environment.

In February 2006, the Institute began the process of merging the AICPA Peer Review Program and the Center for Public Company Audit Firms Peer Review Program (which focuses on the non-public company audits of firms subject to Public Company Accounting Oversight Board inspections over their public company engagements). The combination will result in a single peer review program and set of standards. PRB membership also was reconstituted to represent a cross-section of all firms subject to peer review. The reconfigured board will address the combined programs and revisions to the standards. As its first major initiative, it will issue an exposure draft, planned for spring 2007, proposing revisions to the peer review standards.

Business Valuation Services Move Toward Standardization

In keeping with its responsibility to guide members in providing high-quality services in all areas of practice, the AICPA issued an exposure draft on a proposed standard for business valuation services, a growing niche area for CPAs. The Institute received more than 150 comment letters, and based on those letters and dialogue, released a revised exposure draft in October 2006. Once issued, the standard—designed to improve the consistency and quality of practice—would apply to all AICPA members providing services to value a business, an interest in a business, a security or an intangible asset.

International Efforts Cover New Ground

This year marked a renewed effort in the profession's activities outside of the United States. The AICPA is very active as the largest accounting organization of any country in the world, and is a member of the International Federation of Accountants (IFAC). Through IFAC, the Institute exerted tremendous leadership in standard-setting and ethics.

The AICPA also joined with eight other institutes around the world to form a new collaborative, the Global Accounting Alliance (GAA). The GAA, operating in significant capital markets, will promote quality services, share information and partner on important common issues. The GAA's primary focus will be to work with key regulators as they proceed on international issues, jointly develop materials to address upcoming trends and elevate private company issues. Additionally, it will help member institutes develop positions for more effective advocacy and support IFAC's role as the voice of the international profession.

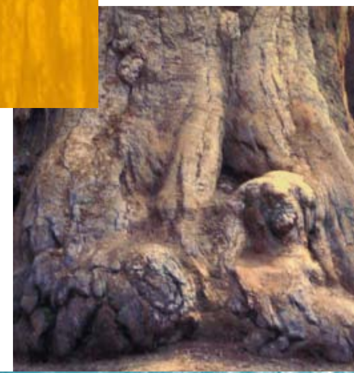
GAA
Global Accounting Alliance
Serving Capital Markets

Reinforcing Our Commitment to Ethics

Without question, integrity is a fundamental trait of the CPA profession. To maintain the profession's high ethical standards, the AICPA published revisions to the Code of Professional Conduct.

One revision clarifies how offering or accepting gifts and entertainment to or from a client, or from a vendor or customer of the member's employer, affects independence and objectivity. In another, a new *Conceptual Framework for AICPA Independence Standards* was adopted along with a related revision to the Code's independence interpretation 101-1. The Conceptual Framework will assist members in evaluating whether a specific circumstance not addressed in the Code would impose an unacceptable threat to a member's independence. The AICPA also published a new ethics interpretation defining financial interest, both direct and indirect, as used in the independence rules, and providing guidance to members on applying the definitions **(www.aicpa.org/members/div/ethics/index.htm)**.

GROWTH



Branching Out Toward Tomorrow

Looking to the future of accounting, the profession has been breaking new ground in many areas. From tailoring private company financial reporting, to enabling CPAs to practice across state lines, to attracting and advancing new and diverse CPAs, the profession is preparing itself today for what it needs to succeed tomorrow.

Financial Reporting for Private Companies Begins to Emerge

The AICPA and the Financial Accounting Standards Board (FASB) together are looking into enhancing the FASB standard-setting process to accommodate constituents of private company financial reporting. The effort yielded a public proposal to revise certain FASB processes, as well as to sponsor a new committee to serve as an important resource to the FASB. Consisting of users, preparers and practitioners from the private company realm, the committee will consider differences in prospective and existing generally accepted accounting principles (GAAP) as they pertain to private companies.

In 2004 and 2005, an AICPA task force studied financial reporting by private companies, spurred by the growing number of voices—particularly among local CPA practitioners and financial executives in private companies—claiming that private company-specific GAAP was worth investigating. In March 2005, the Private Company Financial Reporting Task Force issued a report concluding that the distinctly different needs of constituents of private company financial reporting should be addressed within GAAP.

Business Reporting Gains Momentum

For more than a decade, the profession has been studying how to address marketplace demands for more relevant, transparent business reporting, including both financial and non-financial information. Leading the charge is the Enhanced Business Reporting Consortium (EBRC), a market-driven independent body established last year by the AICPA's Special Committee on Enhanced Business Reporting.

In March 2006, AICPA President and CEO Barry Melancon testified before Congress on fostering accuracy and transparency in financial reporting. The AICPA said a new financial reporting model was needed that would enable investors to make decisions based on current rather than historical data, and the EBRC and eXtensible Business Reporting Language (XBRL) initiatives promised solutions. While the EBRC concerns the content of what is being reported, XBRL deals with the technological format in which information is reported and shared. To facilitate coordination between EBRC **(www.ebr360.org)** and XBRL **(www.xbrl.org)**, the AICPA merged the AICPA's ongoing support of the two activities under the Business Reporting, Assurance and Advisory Services team in June 2006.

Representing a landmark milestone in the adoption of XBRL, the Securities and Exchange Commission (SEC) on September 25, 2006, announced its $54 million program to reconfigure its Electronic Data Gathering and Retrieval (EDGAR) system to accept interactive data. One of the SEC's key projects in its EDGAR modernization program is a $5.5 million contract with XBRL US, Inc. to complete the development of GAAP financial reporting taxonomies. XBRL-US, which had previously operated as a volunteer committee of the AICPA, was spun off to form XBRL US, Inc., an independent, not-for-profit organization. XBRL US, Inc. will continue as the chartered U.S. jurisdiction of XBRL International, Inc., and as a member-supported body.

In line with the EBRC's goals, the AICPA teamed up with the American Accounting Association's Management Accounting Section to conduct research on non-financial performance measures. With more than 42% of members working in public, private and non-profit organizations, management accounting is critical to the Institute and its mission of serving the public interest. Because capital markets deal mostly in intangible assets, it is critical that stakeholders have access to more information about them than traditional financial statements provide.

Profession Moves Forward with Mobility

A new edition of the AICPA/National Association of State Boards of Accountancy (NASBA) Uniform Accountancy Act (UAA) statute was approved by both organizations in 2005. This new edition, which represents the most significant changes to the model statute since 1997, contains revisions regarding peer review and "substantial equivalency," among other provisions **(www.aicpa.org/states/final11.htm)**.

While the AICPA supported the changes in the model UAA, it recognized that the concept of substantial equivalency was not being implemented at the state level in the way intended to reflect an Internet-based and mobile society. Currently, CPAs must attempt to practice each day in the context of a varied and sometimes complex web of regulations that differ from state to state, making compliance nearly impossible. Today's dynamic marketplace has erased geographic boundaries and dictates that CPAs, to support their clients and meet their business needs, be able to engage in temporary interstate practice without unwarranted difficulty.

To address this issue, the AICPA in May 2006 formed the Special Committee on Mobility **(www.aicpa.org/statelicensing)**. Specifically, the committee is working to identify and address unnecessary burdens and requirements that do not contribute to protecting the public interest and block CPAs from serving clients across state lines. State CPA societies and a grassroots effort among members are imperative to gaining support for change among decision makers at the state level.

Computerized CPA Exam Takes Hold

The Uniform CPA Examination saw significant improvements this year. Although the number of candidates taking the exam initially declined, as expected after the computer-based test was introduced, informational efforts coupled with actions recommended by a task force studying the issue led to increased numbers of test takers and exam sections this past year. In fact, while 68,000 people sat for the exam the first year of computerization, 101,000 people sat for the exam last year—in line with the final year of the paper-and-pencil version. Moreover, great efforts were made to reduce the cost structures associated with this leading-edge exam, and the expenses this year came in at a net of $1 million under projection.

Young CPA Network Reaches Out

In the next 15 years, 75% of the AICPA's current membership will approach retirement age, indicative of a change in not only the profession's, but the nation's, demographics. While this presents innumerable opportunities for young CPAs, the AICPA must ensure the profession's commitment to integrity, objectivity and competence is maintained through this generational shift. To engage young CPAs in the profession and to help them connect to the sustaining value of being a CPA, the AICPA launched the Young CPA Network in July 2006. Through the program, members 35 years of age and under will receive a monthly e-newsletter replete with information on various relevant topics; access a Web site housing resources and information on their careers **(www.aicpa.org/YoungCPANetwork)**; and participate in Web casts on professional development, leadership skills and time management.

Keeping young CPAs connected to the profession and engaged with their accountancy institutes also is an international priority. The AICPA serves on the International Innovation Network's Younger Member Task Force, which is charged with working to address the unique challenges faced by younger members. Along with five other countries' peer institutes, the AICPA participated in an international survey of younger members early in 2006. The task force continues to share information and works to develop tailored programs and services for this group.

Balance Is Key

Research into work/life needs for men and women and into women's professional advancement continues to be an important issue for the CPA profession, especially in attracting and retaining top talent. The AICPA developed a number of new resources this year to support CPAs and employers in their efforts.

- A recent study, *A Decade of Changes in the Accounting Profession: Workforce Trends and Human Capital Practices* **(www.aicpa.org/worklife)**, explored a wide range of related topics, including career advancement, turnover and mentoring.

- A new DVD, *Staff Retention: The New Face of the CPA Profession*, highlighted top experts in the field of professional staffing and leaders of the CPA profession. They provided insight about workforce shortages and what it will take to attract and retain the best and brightest workers in the future.

- For solutions to practical problems, the AICPA offers a robust online toolkit for use by professional service firms and corporations. FlexWise™, developed by Rupert and Company, is a comprehensive set of online flexibility tools that include policy and procedure guidelines, orientation training and best practice training in telecommuting, job sharing and compressed schedules **(www.cpa2biz.com/flexwise)**.

- Firm managing partners, human resource professionals and women CPAs were brought together at the AICPA Women's Summit to share ideas and devise strategies about the retention and advancement of women. Held in October 2005, the Summit covered the business case for recruiting and retaining women, who comprise over 50% of all accounting graduates, and who increasingly are the clients and business owners being served by the profession.

- A six-session focus group identified the unique issues in the profession that help or hinder women's advancement. These focus groups resulted in a report titled, "What Women in the Profession Are Thinking." The research effort gleaned information on the changes that had occurred in the profession over the past decade, what issues still exist and what is needed for the future.

The future success of the CPA profession relies a great deal upon public perceptions of CPAs' abilities and roles.

Student Recruitment Campaign Fills the Pipeline

As CPAs retire or leave the profession, a new generation of qualified talent must be waiting in the wings. Start Here. Go Places. has been the profession's single most comprehensive, multi-year student recruitment effort ever. Five years into the program, results show strong majorities find the program particularly helpful in deciding to major in accounting in college and later pursue CPA certification. High school students' perceptions of the CPA profession have remained positive and favorable, college students familiar with the program have high opinions of CPAs, and program registrants are more likely to pursue accounting because of the program.

Specific campaign measurements are impressive. More than 1 million students have responded to the campaign. More than 340,000 students registered with Start Here. Go Places. through its Web site **(www.startheregoplaces.com)**, the campaign's home base. A 2006 Webby award finalist, the site hosts online tools, resources and information. Campaign direct mail, brochures, e-mail and other communications direct students to the Web site. The site also features several online games, the newest one being the Turnaround Game. This business simulation game, winner of the 2006 Web Marketing Association's Internet Advertising Competition, alone generated over 12,000 new registrants. Year 6 of the campaign will continue to target high school and early college but with a focus on early college students. Besides getting students interested in accounting as a career choice, the effort will specifically promote earning the CPA credential.

Diversity Improves

This year saw movement in the percentage of CPAs of color employed by CPA firms. The uptick from 7% to 8%, while slight overall, demonstrates the most significant increase in 4 years and brings the profession to its highest level of diversity. Credit for this achievement goes to the profession's enhanced efforts during recent years to foster a greater ethnic mix in the profession, better reflecting the general population.

Here are some of the AICPA initiatives driving greater participation of minorities:

- **The Minority Scholarship Program** awarded 130 scholarships totaling $423,000 to students at 98 different universities. These scholarships direct new students into accounting, ensuring that the profession's future will be more diverse than it is currently.
- **The AICPA Student Leadership Workshop** focuses on cultivating the profession's next generation of leaders. At this year's workshop, students studied the profession's 360 Degrees of Financial Literacy effort and developed new ways to present this important topic to peers and the younger generation. It also makes top accounting students more visible to leaders in the profession.
- **The AICPA's funding for the Ph.D. Project** increased two-fold this year. The AICPA is a partner along with forward-thinking corporations in this endeavor. Marketing careers in academe to professionals and providing a support network for those who commence a program are the primary goals of the Project. In the last 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.
- **AICPA Minority Doctoral Fellowships** leverage the efforts of the Ph.D. Project and provide fellowships to accounting doctoral students. Fully 98% of students who completed their Ph.D. programs are currently teaching accounting at universities throughout the United States.
- **Faculty Development.** The AICPA sponsored the first meeting of the Diversity section of the American Accounting Association (AAA), enabling accounting faculty of color to address issues within academe. Additionally, for the fifth consecutive year, the Institute provided financial support to minority faculty to attend AAA national conferences to present papers or moderate sessions.
- **Center for Accounting Education at Howard University.** Efforts continued as a sponsor (both financially and from a resource perspective) of this innovative program focused on African-American growth and retention in public accounting, with an emphasis on completion of the CPA Exam.
- **Advertising.** A combination of the Be a Star in Business—Be a CPA and the Start Here. Go Places. advertising campaigns creates the link to connect print advertising developed specifically for minority high school and college audiences with the Institute's interactive advertising campaign.
- **Strategic Partners.** The AICPA has developed key partnerships with various groups, including state CPA societies, and minority accounting organizations, such as the Association of Latino Professionals in Finance and Accounting, the National Association of Black Accountants and the emerging National American Asian Society of Accountants. More recently, new partners include non-accounting programs, such as The Diversity Pipeline Alliance, INROADS, the Management Leadership for Tomorrow and other organizations that play a key role in steering high school through college students to careers in accounting.

COMMUNITY

Upholding Our Public Service Mission

Our members work hard each day to help businesses, clients, employers and the public live better lives. Whether the rewards are financial, personal or community oriented, Americans and organizations look to CPAs for support and direction.

Hurricane Victims Turn to CPAs for Help

The CPA profession has always been proud of its work to help those in need following an emergency. As part of the profession's ongoing commitment to public service, the AICPA marshaled support and assistance to help victims of 2005's devastating hurricanes. The Institute teamed with the Internal Revenue Service (IRS) to offer free assistance to taxpayers affected by Hurricanes Katrina, Rita and Wilma.

In response to Katrina, the AICPA created the Disaster Recovery Resource Center, a central, online resource that included a news center, business and personal financial recovery resources, tax tools and information and related resources. To help individual CPAs and firms in the affected areas, the Private Companies Practice Section (PCPS), with the support of the AICPA audit quality centers and other membership sections, created a firm volunteer center that matched CPAs in need with firms willing to offer assistance, including office space, technology or even temporary assignments.

In addition, the AICPA worked with the IRS and with volunteers from Ernst & Young and the Mississippi Society of CPAs to help tax clinics in the Gulf Coast prepare tax returns for low-income taxpayers who had casualty losses. Over 200 families were helped by CPA pro-bono volunteers. Other firms and individuals were also active in providing extensive pro-bono services in the region.

On the technical side, the AICPA updated its Disaster Area Practice Guide to reflect recent guidance and legislation for victims of the three hurricanes. The American Red Cross distributed disaster preparedness and financial recovery guides produced by the AICPA and the National Endowment for Financial Education with support from the AICPA Foundation. Technical guidance issued for members grappling with disaster-related issues included practice aids on the auditor's responsibilities when disaster affects an audit client's operations after field work is completed, accounting and disclosures stemming from natural disasters, and the destruction of documents.

Through its Benevolent Fund and a donation by the AICPA, the Institute is offering financial assistance to CPAs and CPA firms in Alabama, Louisiana, Mississippi and Texas affected by Hurricanes Katrina and Rita. Eligible applicants for the one-time grant must be CPAs in good standing with the AICPA. Grant requests will be evaluated and issued based on need. The Fund includes contributions from AICPA members.

CPAs Improve Americans' Financial Literacy

With savings at an all-time low and debt at an all-time high, educating Americans about managing their money has never been more important. Begun in 2004, the profession's award-winning 360 Degrees of Financial Literacy program has enjoyed great success in helping people better control their financial health. More than 500 million media exposures reached consumers since October 2005. The effort's Web site **(www.360financialliteracy.org)** has had more than 15 million hits since its launch in October 2004 and ranks highly on all major search engines. About 1,200 individuals each day visit the Web site to use its information, guides and tools.

In addition, the AICPA sponsored a special supplement of the *Weekly Reader.* Reaching nearly 1 million fourth graders across the nation, *Budget Buzz* spotlighted the value of savings. A survey conducted in conjunction with the publication assessed the financial attitudes of "tweenagers," children between ages 9 and 12. The study found that generally, this young population knows about the importance of saving money—and they are putting away nearly 50% of their allowance.

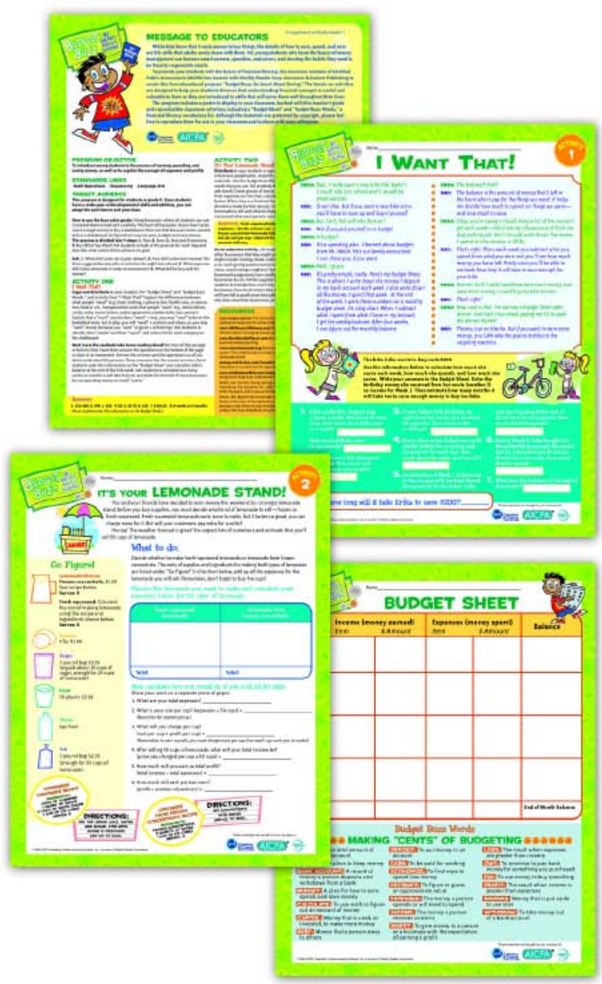
The AICPA also joined forces with Harris Interactive to examine the gap between Americans' expectations for retirement and the related financial realities. The study revealed that many Americans prioritize short-term financial concerns over long-term retirement planning. But there was some good news: The message that Social Security and pensions will be unavailable is getting through to young adults and they realize the importance of saving and planning for retirement. These polls, along with other activities, help guide new initiatives under the 360 Degrees of Financial Literacy program, as well as enable the Institute to better target the resources CPAs need to assist their clients and communities **(www.aicpa.org/financialliteracy)**.

In February 2006, the AICPA partnered with the Government Accountability Office on its Fiscal Wake Up Tour, led by Comptroller General David Walker. The Institute sponsored the North Carolina session of the public forums being held around the country to focus attention on the government's long-term fiscal challenges and their potential impact on Americans.

What's more, the AICPA moved forward on developing a financial literacy public service announcement campaign with the Ad Council. The program will focus on encouraging young working Americans to begin saving and making their plans for long-term financial security.

Ambassador Program Mobilizes CPAs Nationwide

An innovative grassroots campaign to help restore the public's confidence in the profession was launched in November 2003. The CPA Ambassador program, a collaborative effort of the AICPA, state



CPA societies and CPAs at the state and local levels, has resulted in training more than 800 CPAs to engage with their communities to discuss issues important to the public, business leaders, investors, legislators, clients and employers. CPA Ambassadors are informed of developments in the program through a newsletter, a Web site **(www.cpaambassador.org)** and other vehicles. Materials available to spokespeople are continually updated and will include discussions of pensions, work/life concerns, and business and industry issues. A survey conducted this year among the CPA Ambassadors assessed the overall program and identified future needs. Planning for next year is well underway based on responses.

New Online Media Center Draws Attention to CPAs

The press plays a critical part in illuminating financial and economic issues to varied audiences. Showcasing CPAs' outstanding work through the media continues to be a high priority for the AICPA. As part of that initiative, in April 2006 the AICPA launched an online resource for reporters to educate and update them on AICPA programs and initiatives, its leadership, its members and issues affecting the CPA profession as a whole. The Online Media Center **(www.aicpa.org/mediacenter)** features background information on the AICPA, an electronic press kit, issue briefs, research reports and statistics, among other resources. The Web site averages 1,500 hits per month.

The Profession Stands Tall on Capitol Hill

Much effort over the years has been put into representing members, businesses and the public on legislative and regulatory matters. This year was no exception.

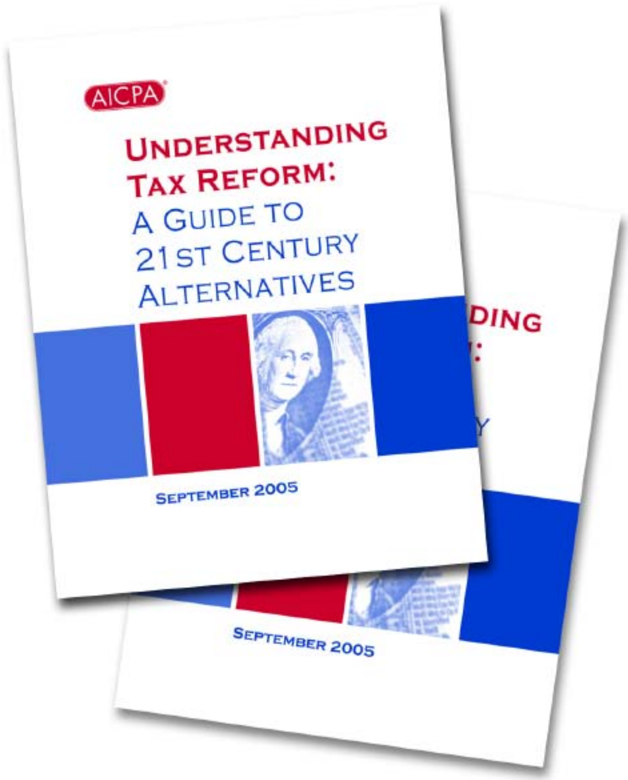
Responding to a bill reauthorizing the federal Head Start program that would require audit firm rotation for all audits under the Head Start program, the AICPA reached out to policy makers. The AICPA opposes auditor rotation of the program's grantees because it would not provide a public interest benefit, could limit auditors' availability for the program and would negatively impact small CPA firms. The Institute believes that this provision, which mirrors an auditor rotation provision in the Sarbanes-Oxley Act, is not appropriate for audits of non-public entities.

The profession's legislative outreach came to fruition in another area. On August 3, 2006, President George W. Bush signed into law a bill clarifying that a 1996 law prohibiting states from taxing the retirement income of non-residents also covers taxing the nonqualified retirement benefits paid by a partnership to its retired non-resident partners as well as retired non-resident employees. The bill had been introduced in the House of Representatives in late 2005. The profession began negotiating with state tax administrators and helped resolve their concerns, enabling Congress to pass the bill.

Members' involvement in the profession's advocacy is essential. Through a series of communications and programs this past year, members were asked to increase their monetary contributions to the Institute's political action committee (PAC). And they responded significantly. Personal contributions to the PAC ensure the accounting profession has a strong voice in our nation's capital. Last election cycle, AICPA members serving as legislative contacts across the country personally delivered checks to their members of Congress, and the bi-partisan PAC was able to help elect 9 new House Representatives and 4 new Senators.

Profession Protects CPAs from Unnecessary Burdens

Gramm-Leach-Bliley Act privacy notification requirements pose an unnecessary regulatory burden on CPAs, since state licensure laws and the Internal Revenue Code prohibit CPAs from disclosing personal financial information without client approval. In an important victory for the profession, on September 30, 2006, Congress passed a bill containing the AICPA's Gramm-Leach-Bliley Act privacy notice exemption. President Bush is expected to sign the bill into law, at which time it will become effective. The exemption also represents a win for CPAs' clients, who often found the disclosure statements confusing.



A distinguishing mark of a profession is acceptance of its responsibility to the public. The public interest is defined as the collective well-being of the community of people and institutions the profession serves. AICPA members commit to honor the public trust.

Tax Branches Out and Wins Recognition

Advocacy in the tax area was perhaps the busiest of all this past year. Through these efforts, the AICPA not only brings about meaningful changes, but also demonstrates the profession's expertise and commitment to the public interest.

Tax reform, in terms of both fairness and simplicity, is an important concern for tax preparers and taxpayers alike. To serve as a key, unbiased resource in the ongoing debate, the AICPA issued *Understanding Tax Reform: A Guide to 21st Century Alternatives* (www.aicpa.org/taxreform). The 100-page report, described by experts as the most comprehensive discussion available on the topic, was distributed to all members of Congress in October 2005.

Based on comments from the AICPA about the potential burden imposed on tax practitioners of having to report all details of capital transactions on Schedule D, the IRS released a statement clarifying the instructions and permitting attached schedules. Taxpayers benefited from this advocacy as well through simpler reporting procedures.

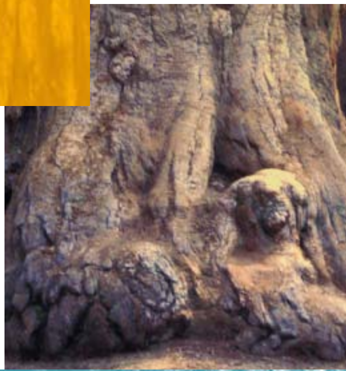
Speaking on behalf of S corporations, the AICPA testified before the House Small Business Committee. It also recommended to the Senate Finance Committee that certain provisions be included in the S Corporation Modernization Act of 2006 to help the small businesses using this form of organization to remain competitive. Similarly, the AICPA continues to work hard to alleviate tax filing burdens by pushing to allow S corporations to elect an appropriate fiscal year-end for their business, instead of the currently mandated December 31. Legislation has been introduced in the House and Senate to mitigate this workload compression, which the AICPA strongly supports. The Institute expects these bills to move along with a series of bills to simplify the tax code and reduce the burdens on small companies.

Moreover, the AICPA hosted the U.S. Small Business Administration's Web chat titled, *Tax Planning & Preparation for Small Businesses*. The program, held in December 2005, provided small business taxpayers with advice tailored to their special needs at a critical time while reinforcing the CPA's role of tax expert and small business's most trusted adviser.

In all, more than 30 comment letters or position papers on various tax issues were submitted to either the IRS or Congress. These advocacy efforts led to the IRS awarding the Institute with a certificate acknowledging the importance of its feedback in promoting sound tax administration.

This stepped-up activity resulted in increased media coverage of CPAs' tax expertise. The CPA's voice as the acknowledged tax expert was heard more than 290 million times this past year. AICPA spokespersons appeared in tax stories on the *CBS Evening News*, the *NBC Nightly News*, *ABC World News*, and *Fox News*. They also were quoted in *The Wall Street Journal*, *USA Today*, *Business Week*, *The Washington Post*, *Forbes* and *Newsday*, as well as in Dow Jones and Associated Press newswire items, many regional and local papers, and accounting and tax trade publications.

SUPPORT



Developing and Enhancing CPAs' Knowledge and Skills

Part of the AICPA's mission is to provide its members with the information and resources they need to perform services at the highest level. In the past year, the Institute continued growing resources for small CPA firms to better serve their clients, reaching out to CPAs in business and industry and in government, building its services for niche markets and bolstering support for CPAs' expanded services.

PCPS Is the Voice for Small Firms

From advocacy to staff recruitment to succession planning for their practices, the AICPA continues to address the many critical issues facing the 45,000 small firms represented by the Private Companies Practice Section (PCPS). These are the firms that serve small businesses and private companies—our nation's economic engine.

During 2006, the AICPA represented the voice of small firms in numerous areas. These include the proposed revisions in the business valuation standards exposure draft, a proposal on new standards for tax practice, continual clarity on independence rules, and on myriad issues with regulators through the PCPS's Technical Issues Committee.

In recognition of the all-encompassing nature of the small-firm relationship with the small business client, the AICPA extended the scope of small firm initiatives to specialty practice areas: personal financial planning, business valuation, forensic services, litigation support and information technology.

PCPS also undertook a new "Top Talent Study" to help guide small firms' recruitment efforts. The study examined talented young staff members' hopes for growth opportunities, job benefits and firm culture, and explored how these elements affect their decisions to join or stay with a firm. It also surveyed firm management opinions to compare them with those of top talent. PCPS will use the results to create programs that will benefit all CPAs. A brochure to be released in fall 2006 will describe the survey results and discuss best practices used by firms that have been particularly successful in attracting and retaining top professionals.

PCPS also created a series of specially tailored resources for members in smaller firms. At the sold-out Emerging Partners Training Forum, for example, promising future leaders learned specifically what makes a CPA firm leader successful. In addition, the white paper, *Best Practices in Recruiting and Retaining Talented Staff* **(www.aicpa.org/pcps)**, offered further practical insights into those issues. For firms looking for guidance on succession, PCPS created a variety of resources, including a book, white paper and Web casts.

In addition, to help CPAs strengthen their practices, PCPS launched a series of online Practice Management Forums covering such issues as profitability, succession, strategic planning and marketing. They feature nationally known speakers leading live PowerPoint presentations and answering participants' questions.

Shedding light on small firms' competitive advantages is the Small Firm Advantage initiative, launched in spring 2006. Small firms will gain invaluable insights and support from PCPS's many new efforts in this area, including its rededication to initiatives and publications that highlight the Small Firm Advantage. Among them are a new logo that can help members quickly locate related resources and an article describing the initiative in the July 2006 *Journal of Accountancy*.

Business & Industry Members Get a Boost

CPAs working in business and industry comprise more than 42% of the AICPA's membership, representing the largest member segment. These members are an integral part of corporate America, serving as chief financial executives, controllers, entrepreneurs, internal auditors, and accounting and finance staff. What's more, CPAs in public companies, private companies and not-for-profits have seen their roles take on additional prominence and increased scrutiny since passage of the Sarbanes-Oxley Act in 2002.

Internal control is particularly important now, and CPAs involved in this area have received information and guidance from the Business & Industry team. A resource page on the subject was added to the Financial Management Web site **(www.aicpa.org/fmcenter)** and staff participated in the COSO Small Business Guidance Task Force to issue internal control guidance for small public companies.

Fraud detection and prevention is another area where the AICPA has been very active over the years and where CPAs have been enhancing their abilities to identify and deter corruption. In addition to its many existing efforts, the AICPA co-founded the Institute for Fraud Prevention (IFP) with the Association of Certified Fraud Examiners. In early 2006, the IFP awarded grants to fund academic research on assessing the role of control overrides in financial statement fraud, assessing how identity thieves obtain identities for exploitation, and assessing how procurement fraud suborns officials. Reports on those research projects are due by the end of 2006.

Other initiatives abound:

- An Executive Education Program, a collaborative intensive course with the University of Southern California, focused on strategy, leadership and communication issues facing company financial executives.
- Demonstrating the breadth of CPA executives' knowledge and public interest spirit, two surveys were conducted on issues important to all Americans. One asked CPAs to assess the economy and workforce; the other posed questions about employers' pension funding. It appears that while respondents were optimistic about the economy and predicted improved hiring, they believed many companies will have difficulty funding pensions to cover employees' retirement.
- To expand available resources for members in business and industry, the AICPA entered into an agreement with the Chartered Institute of Management Accountants, based in London, to offer additional professional tools focused on business management, management accounting and financial management. Taken together with the AICPA's long-standing relationship with the Society of Management Accountants of Canada, the three top management accounting bodies in the world are working collaboratively to help members in business and finance perform high-quality services.

Emerging Resources Support CPAs in Government

The AICPA has renewed attention on CPAs working in local, state and federal government. Realizing many students are unaware of the vast opportunities available for CPAs in this area, the Institute produced a recruitment video. The video focuses on a member at each level of government, talking about the work they do, the diversity and richness of a government career and the satisfaction of working for the greater good. Currently, an accompanying program is being developed for use with student accounting organizations.

A print version of the *Government Audit Committee Toolkit* released online last year became available. The toolkit explores conducting an audit committee executive session, discussions to expect from the independent auditor, peer review of CPA firms, evaluating independent auditors, fraud, internal controls and more.

To help government CPAs get important information quicker and more easily, the AICPA started a process to integrate relevant content into the Financial Management Center **(www.aicpa.org/fmcenter)**. In addition, better tailoring of resources will result from the first-ever survey of members in government conducted this past year. The survey is part of an initiative to learn more about these CPAs so the AICPA can design programs and services to help them perform at the highest levels.

Specialized Centers Target Niche Areas

The AICPA's seven Web-based centers offer members targeted news, tools and resources to help them provide top-notch services. Centers exist for Accounting Education **(www.aicpa.org/aec)**, Business Valuation and Forensic & Litigation Services **(www.aicpa.org/bvfls)**, Financial Management **(www.aicpa.org/fmcenter)**, Information Technology **(www.aicpa.org/infotech)**, PCPS Firm Practice **(www.aicpa.org/pcps)**, Personal Financial Planning **(www.aicpa.org/pfp)** and Tax **(www.aicpa.org/tax)**.

Based on member needs, the centers are continuously developing new services and material to help CPAs remain knowledgeable, improve performance or increase offerings. One example of a significant new benefit is discounted access to the Daubert Tracker online database for CPAs belonging to the Business Valuation and Forensic & Litigation Services Membership Section. These CPAs can tap into the database to help them prepare expert witness testimony, a growing service CPAs are providing.

Specialty Credentials Provide Mark of Distinction

AICPA credentials signal that a CPA has achieved a high level of knowledge and expertise in a niche area. The AICPA's three credentials, Certified Information Technology Professional (CITP), Accredited in Business Valuation (ABV) and Personal Financial Specialist (PFS), all received increased levels of support in the past three years to enhance the benefits provided to credential holders.

Meeting an important milestone months ahead of schedule, the PFS credential reached its credential-holder target established by the AICPA governing Council in 2003. More than 3,700 CPAs now hold the PFS credential, demonstrating excellence and achievement in personal financial planning. Exposure of the credential has picked up momentum as well. CPAs with the PFS credential participated in more than 600 media interviews featured in both national and local media outlets. Recent high-profile mentions of PFS appeared in *The Wall Street Journal*, *CFO*, *Kiplinger's* and others. Personal finance reporters are now recommending CPAs with the PFS credential to consumers as preferred financial planners. Noted personal finance author Jane Bryant Quinn even spotlighted the PFS credential in her new book and *Newsweek* column.

More than 2,000 CPAs now hold the ABV credential. The AICPA initiated new efforts to attract CPAs to the ABV credential, including a sponsor program that enticed CPAs with other valuation credentials to pursue ABV—and several hundred responded. ABV designees stayed abreast of topical information through Web casts and Webinars, practice aids and other resources.

This year, the AICPA granted the 900th CITP certificate. Efforts focused on making the credential available to all qualified CPAs, including an agreement with the Information Systems Audit and Control Association to give CPAs holding the Certified Information Systems Auditor credential an opportunity to automatically become eligible. The AICPA also introduced a streamlined application process and put in place new initiatives to continue this effort in the coming year.

Monthly Magazine Takes on New Look, Features

The *Journal of Accountancy* **(www.aicpa.org/pubs/jofa/joahome.htm)** has always been a tremendous source of news and technical information for AICPA members as well as business executives, government officials and educators. In addition to being a benefit of AICPA membership, about 19,000 non-members pay for a subscription to the monthly magazine. Many of these readers live beyond the U.S. borders.

This past year saw a redesign that improved its look, organization and content. The magazine now runs interviews with key people outside the profession, including high-level Washington leaders, regulators and other noted business figures who have significant messages to share with our members. Future articles will include features from well-known business writers and interviews with international personalities from a variety of important venues, such as the European Union and global bodies that regulate and influence accountants.

CPA2Biz Delivers So Members Can Deliver

CPA2Biz Inc., the Institute's marketing and technology services subsidiary, celebrated its five-year business anniversary in January 2006. Posting an increasing net income result for the second year in a row, the company delivered improved business outcomes for a fourth consecutive year. New business lines, launched after inception, grew by over 30% and were the key drivers in CPA2Biz's growth.

The company's Web site **(www.cpa2biz.com)** is now being used by over 50% of the CPA profession and is the leading e-commerce site for CPAs buying products, accessing articles, viewing Web casts or searching the company's job board, among other things. The site has become increasingly popular with younger members, a demographic with demanding online needs and even higher online expectations.

It was an especially impressive accomplishment to see CPA2Biz listed in *Internet Retailer's Top 500 Guide to Retail Web Sites*, announced in June 2006. Such positive trends and successes are likely to continue as the company unveiled its plans to develop a next generation

A member should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member's ability (Code of Conduct, Article V—Due Care).

Web site, scheduled for release in spring 2007. This sort of measured investment in the site will allow the company to continue to provide high-quality service to AICPA members, further improving on already leading-edge online features and services.

As a data-driven company committed to delivering high-quality service, CPA2Biz closely monitors the results of quarterly customer satisfaction surveys, issued to online customers within 90 days of their making a purchase. For three consecutive years, customer satisfaction has steadily improved—in the most recent survey, 74% of all customers rate the Web site as very good or excellent. Contributing to this positive online member experience are sophisticated shopping tools that allow CPAs to see real-time information on the products their peers are buying, as well as locate relevant products quickly through such tools as 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 special features like sample table of contents, page excerpts and video clips, all helping members make more informed buying decisions.

AICPA members at small and mid-sized CPA firms continue to use the AICPA Business Solutions Program as a way to build stronger relationships with their clients. Since its launch in the fall of 2003, about 17,000 CPA firms nationwide have enrolled in the program, which includes offerings in payroll, small business banking and 401(k) retirement plan services. Each offering enables firms to provide unique value to clients, all the while ensuring CPAs maintain an ongoing role in the decisions impacting the CPA-client relationship. Perhaps most importantly, beyond just enrolling in the program, firms are quite active, having referred thousands of clients to partners to date. This year marked a significant milestone for AICPA Business Solutions. CPA2Biz extended its relationship with Paychex, Inc., the preferred provider of payroll and 401(k) retirement planning services, for an additional five-year term.

Conferences Target Senior Executives' Concerns

NorthStar Conferences LLC, a wholly-owned subsidiary of the AICPA, provides business-to-business conferences to senior level executives with a learning environment that delves deeper into the issues, creates opportunities for exchanging ideas with peers and imparts insight from industry leaders and experts. It specializes in industry-specific programs on financial, legal and operational management. During the past year, the team produced more than 15 national conferences attended by top executives across a variety of industries. NorthStar is dedicated to bringing cutting-edge topics, education, information and networking opportunities to conference participants. Among its programs are: The Education Industry Finance & Investment Summit, The Law Firm CFO Institute, The Accounting Firm Partner Compensation Forum, and The Emerging Partner Forum.

Expanded CPE Offerings Provide Better Resources to CPAs

Continuing professional education (CPE) plays a vital role in CPAs maintaining competencies and enhancing skills. To stay current in today's ever-changing business environment, CPE product lines are expanded or restructured to provide the best resource for CPAs. In May 2006, *AICPA InfoBytes* morphed into *CPExpress*. The online learning center now boasts a new user interface and enhanced functionality for a better user experience. Among other things, there is an easy-to-use catalogue, new categories, easier tracking and course access, and a customizable view of course progress.

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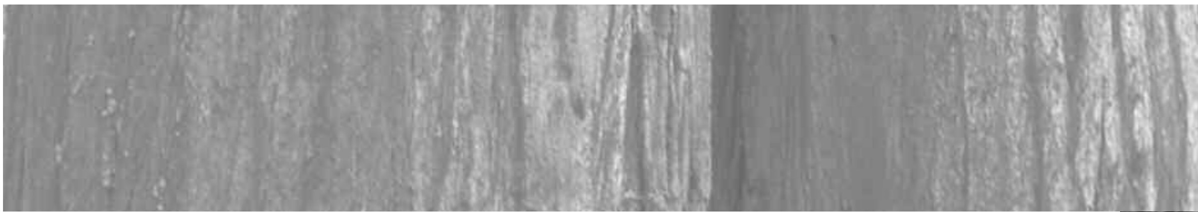


FINANCIALS

AICPA Annual Report 2005–2006

AICPA

Sources and Occupations of AICPA Membership

	2000	2001	2002	2003	2004	2005	2006
Total AICPA Membership (excluding student and other affiliates)	**337,454**	**336,081**	**337,867**	**335,111**	**334,635**	**327,135**	**330,525**
Public Accounting	**39.4%**	**38.9%**	**38.8%**	**38.4%**	**39.0%**	**39.2%**	**40.3%**
Business & Industry	**46.4%**	**46.6%**	**47.4%**	**47.4%**	**41.6%**	**42.9%**	**42.8%**
Education	**2.3%**	**2.3%**	**2.3%**	**2.4%**	**2.3%**	**2.4%**	**2.4%**
Government	**4.2%**	**4.1%**	**4.0%**	**4.1%**	**3.9%**	**3.9%**	**3.9%**
Retired & Miscellaneous	**7.7%**	**8.1%**	**7.5%**	**7.7%**	**13.2%**	**11.6%**	**10.6%**
Membership in Public Practice	**132,943**	**130,870**	**130,995**	**128,730**	**130,343**	**128,292**	**133,379**
Firms with one member	**21.8%**	**21.6%**	**21.3%**	**21.4%**	**22.6%**	**23.0%**	**22.2%**
Firms with 2–9 members	**34.1%**	**34.1%**	**33.9%**	**34.1%**	**29.9%**	**31.6%**	**31.0%**
Firms with 10 or more members, except the 25 largest firms	**22.8%**	**22.8%**	**24.0%**	**24.5%**	**26.0%**	**24.7%**	**24.4%**
25 largest firms	**21.3%**	**21.5%**	**20.8%**	**20.0%**	**21.5%**	**20.7%**	**22.4%**

Management's Discussion and Analysis

Fiscal 2006 marked a year in which the AICPA made tremendous progress in recruitment, retention and advancement of the profession. Our accomplishments in those areas measure where the CPA profession has been, where the profession is now and where the profession is going. We also have made strides in providing timely, effective tools to support CPAs in maintaining their competencies, expanding their leadership in the American business and finance community, and protecting the public interest.

The profession continues to receive national recognition for its continued effort to improve the financial literacy of Americans through our 360 Degrees of Financial Literacy initiative. We also stepped up momentum in addressing private company and small firm interests, assisting the profession in the recruitment and retention of top talent, promoting our members' expertise in business and industry, and advocating legislative and regulatory reform. A detailed account of our broad range of activities is provided in this Annual Report, and it is important to place this Management Discussion and Analysis in the context of achievements and challenges experienced in Fiscal 2006.

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 delivered through a tri-party agreement (Agreement) between the National Association of State Boards of Accountancy, 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 $38.9 million in net deferred costs associated with CBT reflected in its Combined Statement of Financial Position as of July 31, 2005. During Fiscal 2006, the AICPA recognized revenue of approximately $8.3 million and incurred costs of approximately $13.7 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, 2006, the balance of approximately $44.3 million of net deferred costs is reflected in the Combined Statement of Financial Position.

Three main factors affect the recoverability of the deferred costs and are tested annually for impairment — (1) future candidate volume; (2) future price increases; and (3) cost management. Given these factors, 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.

In Fiscal 2006, CBT deferred costs were lower than our budgeted expectations by approximately $3.4 million. This positive budget variance was attributable to higher candidate volume, which generated additional revenue, and lower expenses due mainly to the permanent reduction of certain operating costs. The AICPA will continue to review all opportunities to reduce costs where possible without negatively impacting the CBT technology platform or the services provided to the candidates.

The candidate cost to take the examination is set by each licensing jurisdiction and currently ranges between $575 and $1,000, assuming a candidate takes all four parts. The AICPA currently earns $45 per section or $180 for a candidate taking all four parts of the examination regardless of the candidate charge set by the licensing jurisdiction. Pursuant to the rights granted in the Agreement, for candidates taking the examination after January 1, 2007, a price increase has been announced, which will increase the per test section fee from $45 to $65. After January 1, 2008, the per test section fee paid to the AICPA will increase to $80. Research continues to show that the cost of the examination is not a deterrent to candidates.

To finance this critical professional initiative, the AICPA incurred debt that was suitable and appropriate for this kind of investment. As of July 31, 2006, the AICPA had total outstanding debt related to CBT of $33.6 million which consisted of a $25 million, 7-year term loan and an $8.6 million interest-free loan from Thomson-Prometric. In addition, the AICPA also holds a $20 million line of credit to meet occasional cash needs for CBT and other operations during the course of the year. There were no outstanding borrowings under the line of credit as of July 31, 2006.

MEETING THE DIVERSE NEEDS OF OUR MEMBERS

Specialty Practice Areas

In October 2003, the AICPA's governing Council (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), and the associated technical disciplines and membership sections — Personal Financial Planning (PFP), Business Valuation/Forensic and Litigation Services (BV/FLS) and Information Technology (IT).

Since receiving Council's approval and direction, the AICPA has enhanced member benefits and support 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. We are very pleased to report that in Fiscal 2006, the PFS credential achieved its Council-mandated growth metrics and that efforts continue to grow the ranks of ABV and CITP credential holders as they progress toward their 2008 Council-mandated growth metrics.

OPERATIONS

Relocation to North Carolina

In Fiscal 2006, the AICPA capitalized on an opportunity to significantly reduce future operating expenses, allowing us to continue our commitment to provide our members with the best products and services in the most cost-effective manner. In October 2005, Council approved the relocation of a major part of AICPA operations to Durham, North Carolina. The idea of relocating certain operating units to outside of the New York metropolitan area started many years ago in concept, but became part of our strategic planning process approximately eighteen months ago and quickly transformed into an organization-wide focus for the AICPA in Fiscal 2006.

The relocation impacted approximately 400 positions in the AICPA's New Jersey and New York offices and 52 affected employees agreed to relocate. The move to Durham is providing us an opportunity to both recruit talented individuals in a lower cost environment and streamline many of our processes. As a result, we are seeing improvements in how we do business and how we interact with our members. Beginning in Fiscal 2008, we anticipate that we will permanently reduce operating expenses by approximately $10 million per year largely driven by lower labor costs and lower real estate and other operating costs. After recovering the cost of the relocation, this will provide us with future resources that can be used to develop new and improved programs and services to benefit our membership. The relocation is currently on budget and is financed with a $33 million line of credit with no borrowings outstanding under this line of credit as of July 31, 2006. When completed, the relocation, which will span Fiscal 2006 and 2007, will generate a loss of approximately $49 million, of which approximately $10 million was incurred in Fiscal 2006. Management believes these costs will be recovered in approximately five years.

Defined Benefit Pension Plan

During the last few years, the AICPA, like many organizations, had encountered higher costs associated with its defined benefit pension plan (the Plan). To reduce the Plan costs and financial exposure to the AICPA, the Plan provisions were restructured three years ago to reduce future benefits. During Fiscal 2006, after reviewing many options, the Plan benefits were further reduced for new employees to reduce future costs. The AICPA continues to assess other opportunities to proactively manage the exposure to market fluctuations that a defined benefit pension plan creates to our financial statements.

During Fiscal 2006, the Plan assets and accrued pension liabilities exceeded the accumulated benefit obligation. This resulted in the reversal of the $3.6 million minimum pension liability that was accrued in Fiscal 2005 and decreased pension expense in Fiscal 2006 by the same amount. The accumulated benefit obligation decreased in Fiscal 2006 as a result of two significant variables: (1) the decrease in plan benefits to future plan entrants; and (2) favorable interest rate fluctuations (the assumed discount rate for the AICPA pension plan increased from 5.90% in Fiscal 2005 to 6.65% in Fiscal 2006).

We are also evaluating the impact that the *Pension Protection Act of 2006* and FASB 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans,* will have on the Institute's Fiscal 2007 operating results.

Response to Operational Challenges

In Fiscal 2004 and 2005, the AICPA encountered initial operational challenges and periods of instability associated with the software implementation that occurred in December 2003. However, the AICPA has implemented several enhancements to the overall platform over the last two years and further refinements will be implemented to continually improve on how we conduct business and interact with our members.

During Fiscal 2006, the AICPA notified members about an employee's computer hard drive that was lost in transit by a national carrier and contained certain sensitive information. While the situation occurred in violation of policies and no evidence of a security issue was found, we offered affected members one year of free credit monitoring service. We have reviewed all our internal controls and related policies and procedures to ensure compliance with best practices are in place to help mitigate the risk of such an event from happening in the future.

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 combined financial statements as of and for the year ended, July 31, 2006. The AICPA is not responsible for any liabilities or other obligations of CPA2Biz or the related organizations included in the combined financial statements.

- Total assets on a combined basis were $217.0 million in 2006 compared to $200.6 million in 2005. The increase primarily stems from higher marketable securities due to a higher performing market as well as higher collection for dues received in advance, higher accounts and notes receivable due to higher sales volume and a lower allowance for doubtful accounts due to improved cash collections, higher net deferred costs related to CBT and higher furniture and leasehold improvements associated with the new North Carolina office.

- Total liabilities on a combined basis were $159.8 million in 2006 compared to $154.6 million in 2005. The increase is largely attributable to higher accounts payable and other liabilities associated with relocation-related severance and stay-bonus accruals, higher advance dues associated with higher dues rates, offset by lower long-term debt and lower deferred employee benefits due primarily to the reversal of the Fiscal 2005 minimum pension liability.

- Operating revenue on a combined basis was $181.3 million in 2006 compared to $164.7 million in 2005. This revenue increase is primarily attributable to higher dues revenue associated with an increase in number of members as well as an increase in membership dues, higher sales volume of continuing professional education (CPE) products, particularly conferences, group study and self study and higher professional examinations revenue due to higher CPA and specialty credential examinations revenue.

- Operating expenses on a combined basis were $174.8 million in 2006 compared to $170.4 million in 2005. Operating expenses are higher as a result of higher cost of sales associated with the increase in CPE revenue but also includes approximately $10 million in costs associated with the relocation. This is offset by lower pension and other operating expenses.

- Cash provided by operating activities was $20.5 million in 2006 as compared to $14.5 million in 2005. This increase is primarily attributable to higher advance dues and higher accounts payable and other liabilities offset by higher accounts and notes receivable. Cash used in investing activities was $18.6 million in 2006 and $18.5 million in 2005. Cash provided by (used in) financing activities totaled ($2.3) million in 2006 and $9.3 million in 2005 due primarily to the proceeds and repayments of long-term debt. Net cash decreased in 2006 by less then $.5 million versus an increase of $5.2 million in 2005 primarily due to these activities.

CPA2Biz

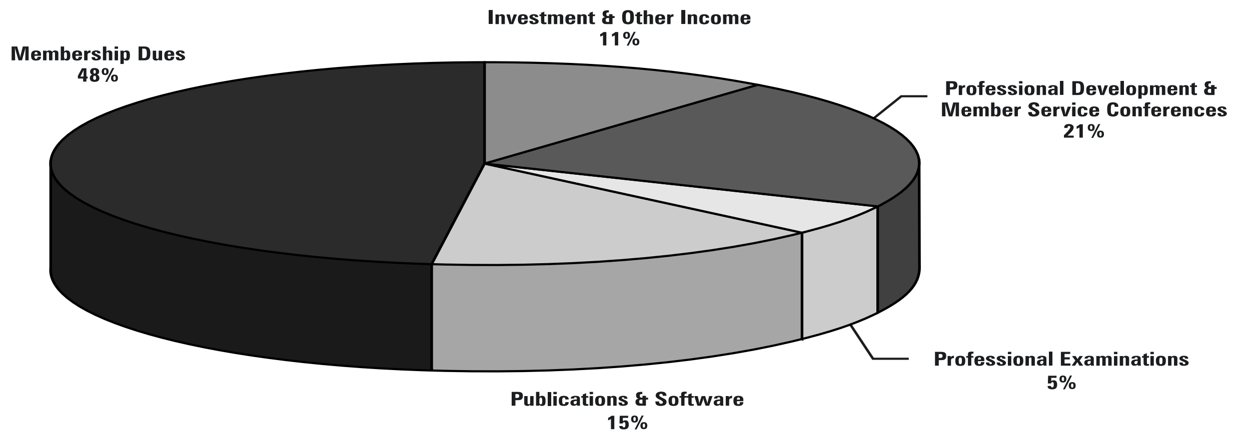
CPA2Biz posted its fourth consecutive year of improving results. Revenue grew by 10% to $15.7 million with net income of approximately $1.5 million. The revenue increase was driven primarily by growth of more than 25% in new CPA2Biz business lines, including Business Solutions, the Career Center and digital newsletters. CPA2Biz's continued commitment to a best-in-class marketing approach helped drive strong performance, particularly in the AICPA Conference and CPE business lines, further contributing to CPA2Biz's revenue growth. In June, CPA2Biz was ranked by *Internet Retailer* as one of the Top 500 e-commerce Web sites in the U.S. as measured by online sales volume.

CONCLUSION

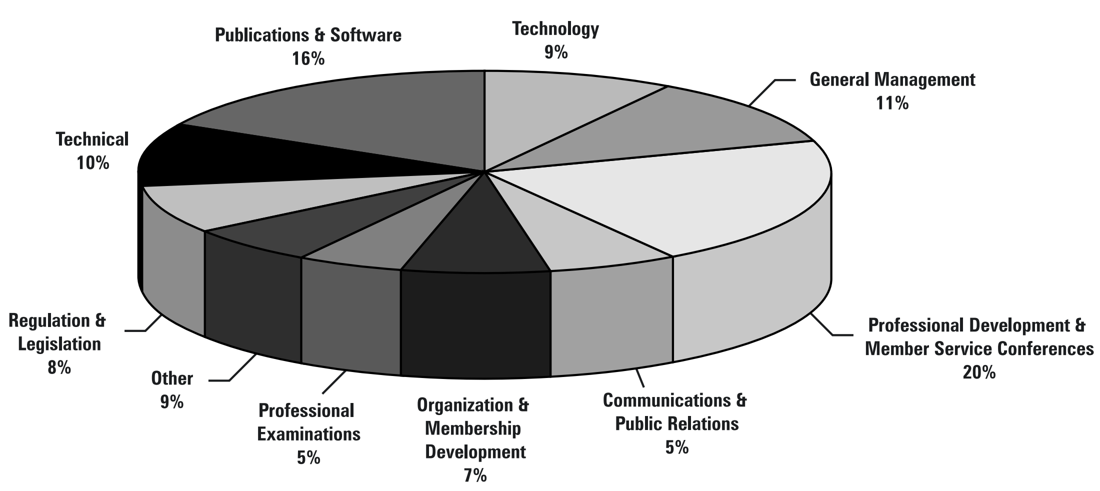
In Fiscal 2007, the AICPA will continue its focus on serving the public interest and supporting our members in achieving the highest ethical and technical standards. The profession has made tremendous progress on many fronts in the past year. One of our core areas is keeping this profession vibrant for those practicing today and for generations to come. 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, and addressing private company financial reporting.

Although the AICPA will increase its overall long-term debt position in Fiscal 2007 to finance the operational relocation to North Carolina, management believes that the AICPA has sufficient liquidity and working capital to meet its needs in the upcoming fiscal year. As noted during the Council meeting in October 2005, the relocation will generate a significant loss for the AICPA that will likely cause the AICPA to have a negative fund balance at the end of Fiscal 2007. The Board of Directors and AICPA senior management believe the anticipated long-term cost savings to be generated by the relocation will replenish the fund balance over the next several years.

Operating Revenue by Activity



Operating Expenses by Activity



Management's Responsibilities for Financial Statements and Internal Control

Financial Statements

The financial statements of the American Institute of Certified Public Accountants and related organizations (the Institute) were prepared by management, which is responsible for their reliability and objectivity. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on informed estimates and judgments of management. Financial information elsewhere in this annual report is consistent with that in the financial statements.

The Board of Directors, operating through its Audit Committee, which is composed entirely of directors who are not officers or employees of the Institute, provides oversight of the financial reporting process and safeguarding of assets against unauthorized acquisition, use or disposition. The Audit Committee annually recommends the appointment of independent public accountants and submits its recommendation to the Board of Directors, and then to the Council, for approval.

The Audit Committee meets with management, the independent public accountants and the internal auditor; approves the overall scope of audit work and related fee arrangements; and reviews audit reports and findings. In addition, the independent public accountants and the internal auditor meet separately with the Audit Committee, without management representatives present, to discuss the results of their audits, the adequacy of the Institute's internal control, the quality of its financial reporting, and the safeguarding of assets against unauthorized acquisition, use or disposition.

The financial statements have been audited by an independent public accounting firm, J.H. Cohn LLP, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Council, the Board of Directors and committees of the Board. The Institute believes that all representations made to the independent public accountants during their audits were valid and appropriate.

The report of the independent public accountants follows this statement.

Internal Control

The Institute maintains internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition which is designed to provide reasonable assurance to the Institute's management and Board of Directors regarding the preparation of reliable financial statements and the safeguarding of assets. Internal control includes a documented organizational structure, a division of responsibility, and established policies and procedures, including a code of conduct, to foster a strong ethical climate.

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

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even the most effective internal control can provide only reasonable assurance with respect to financial statement preparation and the safeguarding of assets. Furthermore, the effectiveness of internal control can change with circumstances.

The Institute has assessed its internal control over financial reporting in relation to criteria described in *Internal Control — Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Institute believes that, as of September 15, 2006, its internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition met those criteria.

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

The report of the independent public accountants follows this statement.

Barry C. Melancon, CPA
President and CEO

Anthony J. Pugliese, CPA-CITP
Senior Vice President —
Finance and Operations

Reports of Independent Public Accountants

To the Members of the American Institute of Certified Public Accountants

We have examined management's assertion, included in the accompanying statement of management's responsibilities for financial statements and internal control, that the American Institute of Certified Public Accountants and Related Organizations maintained effective internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition as of September 15, 2006, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management is responsible for maintaining effective internal control over financial reporting and over safeguarding of assets, and against unauthorized acquisition, use or disposition. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition; testing and evaluating the design and operating effectiveness of the internal control; and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that the American Institute of Certified Public Accountants and Related Organizations maintained effective internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition as of September 15, 2006, 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
September 28, 2006

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, 2006 and 2005, 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, 2006 and 2005, 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
September 28, 2006

Financial Statements
July 31, 2006 and 2005

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND RELATED ORGANIZATIONS

COMBINED STATEMENTS OF FINANCIAL POSITION JULY 31,

	2006	2005
	($000)	
ASSETS:		
Cash	**$ 7,656**	$ 8,106
Marketable securities	**111,326**	100,438
Accounts and notes receivable (less an allowance for doubtful accounts: 2006, $3,026,000; 2005, $3,754,000)	**11,292**	8,532
Inventories	**1,593**	1,310
Deferred costs and prepaid expenses	**58,234**	55,486
Goodwill	**12,553**	13,434
Other intangible assets	**2,442**	3,571
Furniture, technology and leasehold improvements, net	**11,939**	9,729
Totals	**$217,035**	$200,606
LIABILITIES:		
Accounts payable and other liabilities	**$ 33,399**	$ 29,459
Advance dues	**42,277**	35,899
Unearned revenue	**12,631**	11,669
Long-term debt	**37,091**	39,380
Deferred rent	**16,081**	16,076
Deferred employee benefits	**18,312**	22,163
Total liabilities	**159,791**	154,646
PREFERRED STOCK AND NET ASSETS:		
Preferred stock of C2B	**87,354**	87,354
Net assets:		
Unrestricted:		
AICPA and Related Organizations	**51,541**	41,927
C2B	**(83,211)**	(84,846)
Total unrestricted	**(31,670)**	(42,919)
Temporarily restricted	**912**	877
Permanently restricted	**648**	648
Total net assets	**(30,110)**	(41,394)
Total preferred stock and net assets	**57,244**	45,960
Totals	**$217,035**	$200,606

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,

	2006	2005
	($000)	
CHANGES IN NET ASSETS:		
Operating revenue:		
Dues	**$ 87,696**	$ 78,012
Publications and software	**26,765**	28,328
Professional development and member service conferences	**37,469**	31,711
Investment and sundry income	**19,054**	18,038
Professional examinations	**9,039**	7,386
Contributions	**1,268**	1,241
Total operating revenue	**181,291**	164,716
Operating expenses:		
Program services:		
Publications and software produced for sale	**27,602**	29,522
Professional development and member service conferences	**34,978**	30,362
Member services:		
Regulation and legislation	**14,231**	12,491
Technical	**17,339**	15,938
Publications	**2,013**	1,755
Other	**8,027**	8,024
Professional examinations	**9,195**	9,272
Communications and public relations	**9,580**	9,197
Support and scholarships	**3,732**	3,184
Assistance programs	**856**	645
Supporting activities:		
General management	**19,462**	24,202
Organization and membership development	**12,749**	11,497
Technology	**14,992**	14,353
Total operating expenses	**174,756**	170,442
Excess (deficiency) of operating revenue over expenses	**6,535**	(5,726)
Gains (losses) on marketable securities:		
Realized	**7,128**	4,690
Unrealized	**(2,547)**	4,979
Totals	**4,581**	9,669
Change in net assets before minority interest	**11,116**	3,943
Minority interest, inclusive of preferred stock dividend reversals of $19,517,000 in 2005	**168**	14,700
Change in net assets	**11,284**	18,643
Net assets, beginning of year	**(41,394)**	(60,037)
Net assets, end of year	**$(30,110)**	$(41,394)

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
2006:			
Preferred stock		**$ 87,354**	**$87,354**
Net assets:			
Unrestricted	**$51,541**	**(83,211)**	**(31,670)**
Temporarily restricted	**912**		**912**
Permanently restricted	**648**		**648**
Total net assets	**53,101**	**(83,211)**	**(30,110)**
Totals	**$53,101**	**$ 4,143**	**$57,244**
2005:			
Preferred stock		$ 87,354	$ 87,354
Net assets:			
Unrestricted	$41,927	(84,846)	(42,919)
Temporarily restricted	877		877
Permanently restricted	648		648
Total net assets	43,452	(84,846)	(41,394)
Totals	$43,452	$ 2,508	$ 45,960

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,

	2006	2005
	($000)	
INCREASE (DECREASE) IN CASH:		
Operating activities:		
Cash received from members and customers	**$ 182,671**	$171,370
Interest and dividends received	**3,641**	2,893
Cash paid to suppliers, employees and others	**(163,015)**	(157,754)
Interest paid	**(1,898)**	(1,189)
Income taxes paid	**(925)**	(848)
Net cash provided by operating activities	**20,474**	14,472
Investing activities:		
Payments for purchase of amortizable assets	**(7,791)**	(13,001)
Payments for purchase of furniture and technology	**(4,537)**	(1,083)
Payments for purchase of marketable securities	**(96,026)**	(57,858)
Proceeds from sale of marketable securities	**89,719**	53,399
Net cash used in investing activities	**(18,635)**	(18,543)
Financing activities:		
Repayments of line of credit		(15,000)
Proceeds of long-term debt	**25,000**	25,000
Repayment of long-term debt	**(27,289)**	(742)
Net cash provided by (used in) financing activities	**(2,289)**	9,258
Net increase (decrease) in cash	**(450)**	5,187
Cash, beginning of year	**8,106**	2,919
Cash, end of year	**$ 7,656**	$ 8,106
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Change in net assets	**$ 11,284**	$ 18,643
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	**9,582**	8,114
Loss on disposal of furniture, technology, leasehold improvements and software	**256**	
Gain on sale of marketable securities	**(7,128)**	(4,690)
Amortization of unearned revenue	**(536)**	(524)
Unrealized (gain) loss on marketable securities	**2,547**	(4,979)
Minority interest	**(168)**	(14,700)
Provision for:		
Losses on accounts and notes receivable	**769**	557
Obsolete inventories	**286**	28
Deferred rent	**(118)**	(471)
Deferred employee benefits	**(3,816)**	3,559
Changes in operating assets and liabilities:		
Accounts and notes receivable	**(3,529)**	897
Inventories	**(569)**	(61)
Deferred costs and prepaid expenses	**194**	339
Accounts payable and other liabilities	**3,579**	736
Advance dues	**6,378**	8,472
Unearned revenue	**1,498**	367
Deferred employee benefits	**(35)**	(1,815)
Total adjustments	**9,190**	(4,171)
Net cash provided by (used in) operating activities	**$ 20,474**	$ 14,472
Supplemental disclosures of noncash operating and investing activities:		
Furniture, technology, leasehold improvements and software	**$ 559**	
Deferred rent tenant allowance	**$ 123**	

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

Notes to Combined Financial Statements July 31, 2006 and 2005

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 the promotion of diversity within the accounting profession.

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, 2006, 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. The fair value of derivative instruments is based on current settlement value.

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 the statement of activities.

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 $9,226,000 and $9,608,000 for the years ended July 31, 2006 and 2005.

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

Fees paid to consulting firms that develop computer systems and software used for the Institute's internal reporting and management functions are deferred and amortized on the straight-line method over a three- to five-year period that begins when the system becomes operational.

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

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

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

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

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* (SFAS No. 142).

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 Institute accounts for its exit and disposal activities in accordance with Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS No. 146). SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than the date an entity commits to an exit plan and also establishes that fair value is the objective for initial measurement of the liability.

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 2005 financial statements have been reclassified to conform with the current year's presentation.

3. MARKETABLE SECURITIES

Marketable securities consist of:

	2006	2005
	($000)	
U.S. Treasury obligations		$ 13,625
Bonds and notes	**$ 50,515**	25,990
Equities	**60,811**	60,823
Total fair value	**111,326**	100,438
Unrealized gains	**5,465**	8,009
Total cost	**$105,861**	$ 92,429

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

Investment income consists of:

	2006	2005
	($000)	
Dividends and interest	**$ 3,626**	$ 2,884
Realized gains	**7,128**	4,690
Unrealized gains (losses)	**(2,547)**	4,979
	$ 8,207	$12,553

4. INVENTORIES

Inventories consist of:

	2006	2005
	($000)	
Paper and material stock	**$ 432**	$ 163
Publications in process	**420**	156
Printed publications and course material	**741**	991
	$ 1,593	$ 1,310

5. FURNITURE, TECHNOLOGY AND LEASEHOLD IMPROVEMENTS

Furniture, technology and leasehold improvements consist of:

	2006	2005
	($000)	
Furniture	**$ 9,303**	$ 8,695
Technology	**35,251**	32,585
Leasehold improvements	**15,327**	14,006
	59,881	55,286
Less accumulated depreciation and amortization	**47,942**	45,557
	$11,939	$ 9,729

6. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets are as follows:

	2006	2005
	($000)	
Goodwill	**$12,553**	$13,434
Other intangible assets:		
Trade name	**$ 1,783**	$ 1,783
Contracts and technology	**5,645**	5,645
Less accumulated amortization	**4,986**	3,857
Contracts and technology, net	**659**	1,788
	$ 2,442	$ 3,571

Amortization expense on intangible assets with definite lives amounted to approximately $1,129,000 for each of the years ended July 31, 2006 and 2005. Estimated amortization expense in the year subsequent to July 31, 2006 is approximately $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 year ended July 31, 2006, a goodwill impairment charge of approximately $881,000 was recorded and is reflected as a component of general management expenses in the statement of activities. Goodwill was not impaired for the year ended July 31, 2005.

7. LONG-TERM DEBT

Long-term debt consists of the following:

	2006	2005
	($000)	
AICPA (A)	**$ 1,200**	$ 1,200
AICPA (B)	**8,571**	10,000
AICPA (C)	**25,000**	25,000
C2B (D)	**2,320**	3,180
	$37,091	$39,380

(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 $462,000.

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

(C) Term note 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 30, 2012. Interest is payable at LIBOR plus 1%. Amounts outstanding under the term note are collateralized by certain marketable securities, which may not fall below 115% of the sum of the outstanding principal balances of the term note and long-term line of credit (see Note 8) through August 31, 2008 at which time such amounts may not fall below 125% of the sum of the outstanding principal balances. At July 31, 2006, the collateral has a market value of $82,492,000. The guarantor of the term note payable is NorthStar.

(D) The unsecured note bears interest at 5% and is payable in various installments through May 2008. C2B satisfied the accrued interest in connection with this note of $168,000 and $177,000 during the years ended July 31, 2006 and 2005 through the issuance of 39,440 and 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, 2006 and 2005 approximates $35,000,000 and $37,000,000.

Principal amounts due under the above obligations in each of the five years subsequent to July 31, 2006 and thereafter are as follows:

YEAR ENDING JULY 31,

	($000)
2007	$3,869
2008	2,509
2009	1,429
2010	9,762
2011	9,762
Thereafter	9,760

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, 2006, the fair value of the interest rate swap was an asset of approximately $562,000. The swap has been reflected as a component of deferred costs and prepaid expenses in the statement of financial position and as a reduction of interest expense, reflected as a component of general management expenses, in the statement of activities.

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, 2006, approximately $17,053,000 of revenue and $61,397,000 of costs have been incurred. During the years ended July 31, 2006 and 2005, the AICPA recognized revenue of approximately $8,291,000 and $7,126,000. Accordingly, costs equal to the revenue recognized have been expensed. At July 31, 2006, the balance of $44,344,000 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, 2006, approximately $1,429,000 was paid to reduce the 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. For the period from August 2005 through March 2006 an additional $861,000 was accrued. No additional amount was incurred for the period from April 2006 through July 2006. The total amount of $1,924,000 was paid in August 2006. The full amount of $4,650,000 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 $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. In January 2006, the AICPA executed a 15 year lease on a new building in Durham, North Carolina which commences in August 2006 (see Note 15). The accumulated result of using the straight-line method of expensing rent in excess of actual rental payments amounted to $16,081,000 (inclusive of landlord reimbursement for tenant improvements and other costs of $494,000 related to the Washington, DC office relocation) and $16,076,000 as of July 31, 2006 and 2005.

Minimum rental commitments on noncancelable real estate and equipment leases in effect as of July 31, 2006, exclusive of future escalations for real estate taxes and building operating expenses, are:

YEAR ENDING JULY 31,

	($000)
2007	$10,226
2008	12,961
2009	13,029
2010	12,742
2011	12,935
Years subsequent to 2011	55,940

Rental expense for the years ended July 31, 2006 and 2005 was $12,717,000 and $12,423,000.

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 $9,146,000 as of July 31, 2006. Sublease income amounted to $1,398,000 for each of the years ended July 31, 2006 and 2005.

Letters of Credit

The Institute has two irrevocable standby letters of credit associated with its North Carolina and Washington, DC leases of $200,000 and $167,000, respectively. The letters of credit expire on July 31, 2007.

Lines 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 certain marketable securities (see Note 7). There were no outstanding borrowings at July 31, 2006. The line of credit expires on April 30, 2007.

The AICPA also has available a line of credit with a bank for long-term borrowings of up to $33,000,000 to finance the relocation of certain operations (see Note 15) at LIBOR plus 55 basis points. Amounts outstanding under the line of credit are collateralized by certain marketable securities (see Note 7). There were no outstanding borrowings at July 31, 2006. The line of credit expires on June 23, 2007.

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,	
	2006	2005
	($000)	
Projected benefit obligation	**$73,544**	$78,121
Plan assets available for benefits at fair value	**63,881**	55,516
Projected benefit obligation in excess of plan assets at end of year	**$ 9,663**	$22,605
Accrued pension cost	**$ (6,260)**	$ (9,836)

Net periodic pension expense (excluding the effects of the curtailment and minimum liability adjustments, which are described below) was $2,936,000 and $1,854,000 for the years ended July 31, 2006 and 2005. Benefits paid amounted to $3,362,000 and $3,606,000. The Institute made contributions of $2,936,000 in 2006 and expects future contributions to approximate pension expense.

Economic assumptions:	**2006**	2005
Discount rate	**6.65%**	5.90%
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, 2006 and 2005 measurement date, the Institute is utilizing a yield curve methodology to determine its discount rate under Statement of Financial Accounting Standards No. 87, *Employer's Accounting for Pensions* (SFAS No. 87) and Statement of Financial Accounting Standards No. 106, *Employer's Accounting for Postretirement Benefits Other Than Pensions* (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.

Estimated future benefit payments reflecting expected future service for each of the five years subsequent to July 31, 2006 and in the aggregate for the five years thereafter are as follows:

YEAR ENDING JULY 31,

	($000)
2007	$3,080
2008	3,260
2009	3,370
2010	3,540
2011	3,710
2012–2016	22,220

	Target Allocation	Percentage of Plan Assets at May 1,	
	2007	**2006**	2005
Plan assets:			
Domestic equity securities	35–60%	**53%**	51%
International investments	10–25%	**17**	14
Fixed income	20–45%	**29**	29
Other	0–10%	**1**	6
		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 December 2005.

During the year ended July 31, 2005, the Institute recorded a minimum pension liability of $3,559,000, as required by 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, 2006, the minimum pension liability of $3,559,000 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 $3,559,000.

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 $1,170,000 and $1,139,000 for the years ended July 31, 2006 and 2005.

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 (excluding the effects of the curtailment adjustment) cost for the years ended July 31, 2006 and 2005 was $586,000 and $456,000.

The accumulated postretirement obligation as of May 1, 2006 and 2005 was $12,427,000 and $12,236,000. Accrued postretirement benefit costs included in the accompanying statements of financial position were $12,052,000 and $12,327,000.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 6.65% in 2006 and 5.9% in 2005. The weighted average health care cost trend rates used in measuring the postretirement benefit expense is as follows:

YEAR ENDING APRIL 30,

	Pre-65	Post-65
2006	13.0%	14.0%
2007	11.5%	12.5%
2008	9.0%	11.0%
2009	8.0%	9.5%
2010	7.0%	8.0%
2011	6.0%	7.0%
2012	5.0%	6.0%
Thereafter	5.0%	5.0%

The Institute funds the cost of these plans on the cash basis and in 2006 and 2005 paid $622,000 and $617,000.

As a result of the AICPA's relocation of certain operations to Durham, North Carolina (see Note 15), a curtailment of its defined benefit pension and postretirement plans was recognized of approximately $17,000 and $239,000 as of July 31, 2006 pursuant to Statement of Financial Accounting Standards No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits* (SFAS No. 88). SFAS No. 88 defines a curtailment as an event that significantly reduces the expected years of future service of present employees or eliminates for a significant number of employees the accrual of defined benefits for some or all of their future services.

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, 2006, the AICPA controls approximately 55% 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, 2006, 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, 2006 and 2005 is as follows:

	2006	2005
	($000)	
Total assets	**$22,048**	$21,037
Total liabilities	**$13,703**	$14,415
Preferred stock (A)	**87,354**	87,354
Common stockholders' deficiency	**(79,009)**	(80,732)
Total liabilities and equity	**$22,048**	$21,037
Total revenue (B)	**$15,703**	$14,284
Net income	**$ 1,455**	$ 150

(A) As more fully described below, the terms of preferred stock were amended during 2005 to, among other things, eliminate the mandatory redemption feature.

(B) Includes approximately $9,369,000 and $8,694,000 in commissions for services rendered for marketing and promotion of certain AICPA product lines and approximately $6,334,000 and $5,590,000 for Business Solutions, affinity, technology services and other business lines for the years ended July 31, 2006 and 2005.

As of July 31, 2006, 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, 2006, 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.

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. 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 2006 and 2005. The principal balance of the note of $4,344,000 and related accrued interest of $1,072,000 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 $286,000 and $256,000 during 2006 and 2005. These charges have been eliminated in consolidation.

At July 31, 2006, C2B has deferred tax assets of approximately $52,000,000 which arise primarily from net operating loss carryforwards for Federal income tax purposes of approximately $125,000,000 expiring through 2025 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, 2006. 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, 2006 and 2005, there were 2,439,444 and 2,442,178 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.

The AICPA's recorded investment in SSLLC remains at zero as of July 31, 2006.

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. For the year ended July 31, 2005, the AICPA reimbursed approximately $3,276,000 for certain MSP expenses.

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. Such deposits were refunded during the year ended July 31, 2006.

In August 2005, SSLLC ceased operating as the provider of software maintenance, hosting and other support services for the AICPA's involvement with the MSP platform. As a result, for the year ended July 31, 2006, the AICPA paid the applicable platform vendors for such services. SSLLC's Board of Directors continues to explore opportunities to fulfill SSLLC's mission.

12. PREFERRED STOCK AND NET ASSETS

Preferred stock and net assets and changes therein for the years ended July 31, 2006 and 2005 follow:

	Balance, August 1, 2004	Increase (Decrease)	Balance, July 31, 2005	**Increase (Decrease)**	**Balance, July 31, 2006**
			($000)		
Preferred stock of C2B	$ 82,354	$ 5,000	$ 87,354	**$ –**	**$ 87,354**
Net assets:					
Unrestricted:					
AICPA	31,305	1,170	32,475	**8,923**	**41,398**
C2B	(101,180)	16,334	(84,846)	**1,635**	**(83,211)**
ARA	1,047	151	1,198	**88**	**1,286**
Benevolent Fund	4,659	736	5,395	**415**	**5,810**
Foundation	2,358	501	2,859	**188**	**3,047**
	(61,811)	18,892	(42,919)	**11,249**	**(31,670)**
Temporarily restricted:					
Foundation	1,126	(249)	877	**35**	**912**
Restricted:					
Foundation	648		648		**648**
Total net assets	(60,037)	18,643	(41,394)	**11,284**	**(30,110)**
Total preferred stock and net assets	$ 22,317	$ 23,643	$ 45,960	**$ 11,284**	**$ 57,244**

Temporarily restricted net assets are subject to donor-imposed stipulations that can be met either by actions of the Foundation and/or the passage of time.

Temporarily restricted net assets consist of accounting education and research initiatives as follows:

	2006	2005
	($000)	
John L. Carey scholarships	**$ 659**	$ 653
Judicial education	**244**	164
Library support	**9**	60
	912	877

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Foundation.

The Foundation's permanently 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 (FASB) is provided through payments by Securities and Exchange Commission (SEC) registrants. The ARA did not fund any research during the years ended July 31, 2006 and 2005.

In June 2006, the AICPA and the FASB issued a proposal to explore ways to enhance the value, transparency and cost effectiveness of financial reporting for private companies. The ARA's Board of Trustees has made a four year annual commitment of $300,000 to support this initiative beginning August 1, 2006.

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 $3,346,000 and $3,655,000 from the Trust for the years ended July 31, 2006 and 2005.

15. RELOCATION OF CERTAIN OPERATIONS

In October 2005, the AICPA's Board of Directors submitted a plan that was approved by Council to relocate a substantial portion of its Jersey City, New Jersey (Jersey City) operations to Durham, North Carolina in order to manage its cost structure and budget in the most effective way. In connection with that plan, the AICPA identified approximately 400 positions that would be affected by the relocation, impacting staff predominantly located in Jersey City. The AICPA is actively marketing the subleasing of this space. The AICPA currently expects to realize annual cost savings of approximately $10,000,000 beginning in fiscal 2008.

In accordance with SFAS No. 146, the AICPA estimates that under this plan total termination benefits to be accrued at fair value, consisting primarily of severance costs and stay bonuses, will be approximately $7,100,000, of which $5,600,000 has been accrued as of July 31, 2006 and are included in accrued expenses and other liabilities in the statement of financial position and in general management expenses in the statement of activities. Additionally, the AICPA incurred other charges in fiscal 2006 for various other relocation expenses, including consulting costs and temporary facility rentals.

In August 2006, the first phase of the relocation began and is expected to be completed by July 2007. Management estimates the fair value for the remaining lease payments for Jersey City, net of estimated sublease rentals, will be approximately $24,400,000. The estimated sublease rental is based on market rates for recent rental activity in the Jersey City vicinity as provided by the AICPA's real estate consultant. Because of the inherent uncertainty in estimating costs, it is at least reasonably possible that the estimates used will change within the near term.

In accordance with SFAS No. 146, the liability for the cost associated with this activity will be recognized when the liability is incurred and will result in a charge to operations when the activity is completed in July 2007.