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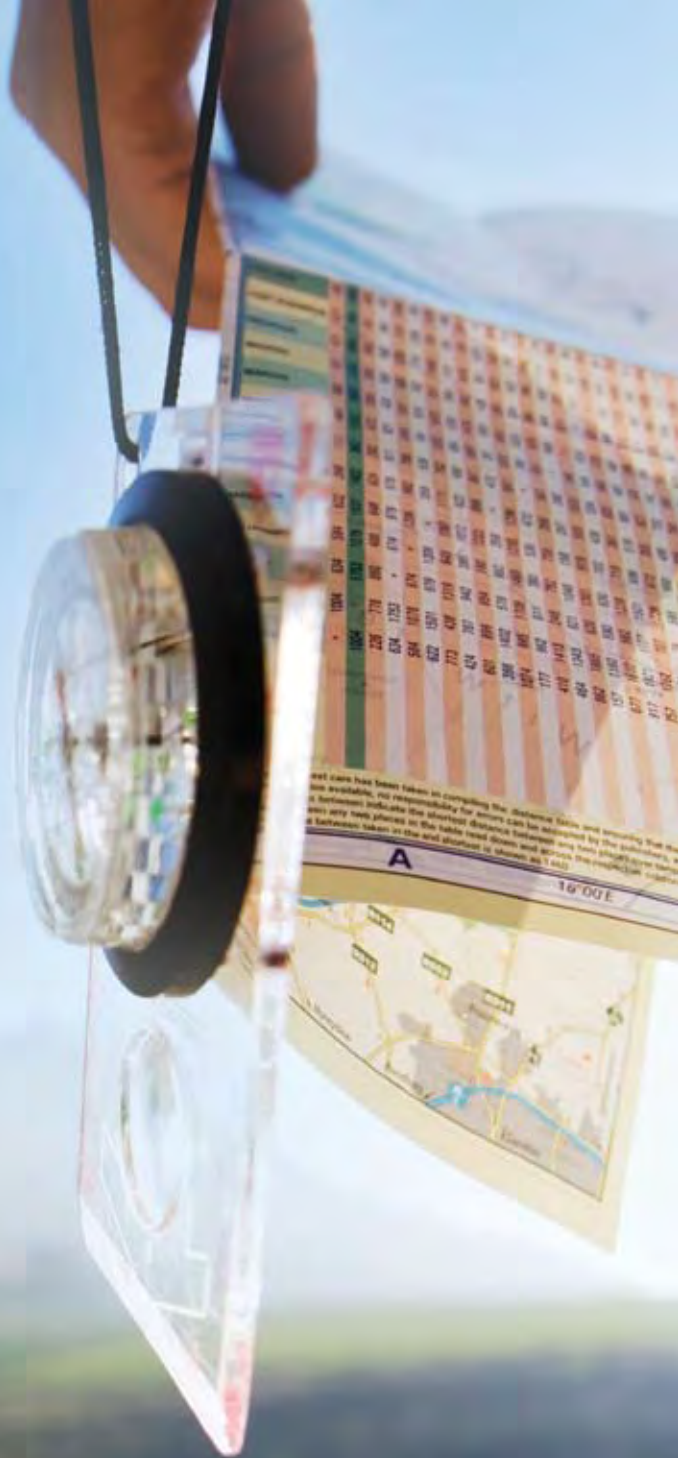
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NAVIGATING

TODAY & TOMORROW



2006-2007
ANNUAL REPORT





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A Message to Members

from the Chairman and President



Barry C. Melancon, CPA
President and CEO

Jimmy L. Williamson, CPA
Chairman

The year 1887 marked the establishment of a national organization representing the accounting profession in the United States. That same year, Herman Hollerith patented his punch-card calculator, Adolf Fick invented the contact lens and Jules Verne was a best-selling author.

In the 120 years of our existence, CPAs have not only witnessed progress but also have engineered it. As the American economy transformed from agrarian to industrial to service, CPAs have contributed a guiding hand, using their talents and acumen to help make our capital market system a model of excellence. As American business has expanded its vistas to embrace virtually every part of the globe, CPAs have served as navigators to new realms.

In its role as the CPA profession's national organization in the United States, the AICPA has long been the guiding light for these navigators. From clarifying regulatory shifts to addressing technological advancements to tackling workforce issues to broadening the CPA's own professional horizons, the Institute serves as the profession's interpreter, diplomat and mapmaker.

Our journey this past year was abundant with accomplishments. Accounting remains the preferred major for students on many college campuses nationwide. CPA2Biz, the Institute's majority-owned subsidiary, responded in a significant way to the profession's online needs with the successful launch of the Next Generation CPA2Biz Web site. Our financial literacy efforts continue to draw plaudits from legislators, regulators and the public. We confirmed our commitment to furthering transparency in financial reporting. We remain the national voice of the profession on matters critical to the public interest.

Ours is a rich profession. Communicating that richness is the heart of our campaign to attract new people. As we help our current members set their sights on new destinations, we want America's high school and college students to view this profession as their destination. It's said that a person can expect to have at least nine careers over the course of a lifetime. Our message to the young is that you can be a CPA and still have those nine careers. That's how diverse and rewarding the CPA profession is. To paraphrase our own "Start Here. Go Places." campaign, when you start with the profession, you truly can go places.

The profession stands at the vanguard of investigating solutions to the country's alarming levels of financial illiteracy, and we CPAs have made an indelible mark as concerned citizens. Our 360 Degrees of Financial Literacy effort and the new Feed the Pig campaign, launched with the prestigious Ad Council in October 2006, have brought CPAs into schools, shopping malls, senior citizen centers, military bases and veterans' halls, with the goal of delivering the financial literacy message to Americans at all life stages and pointing them in the direction of financial well-being.

Because we represent the country's most trusted business advisers, the AICPA continually stakes out new territory in an endeavor to make financial reporting – the bedrock of our capital market system – more relevant and useful. We know the constituents of private and public company financial statements have different needs. What is appropriate for publicly traded companies may not be right for closely held organizations. With that in mind, the Private Company Financial Reporting Committee, consisting of preparers and practitioners, convened this year and is already making recommendations to the Financial Accounting Standards Board that recognize marketplace differences.

With improved reporting as the catalyst, XBRL (eXtensible Business Reporting Language), an innovation that originated with the AICPA, has gained enormous momentum, especially from Securities and Exchange Commission (SEC) Chairman Christopher Cox's enthusiastic endorsement. The profession's foresight in this area received no greater validation than when the SEC granted XBRL US, Inc. (which began as a committee of the AICPA) a \$5.5 million contract to develop taxonomies for United States generally accepted accounting principles reporting.

Reaffirming our position as the premier tax professionals, the profession was an authoritative voice on legislative initiatives that could affect virtually every taxpayer. We supported repeal of the burdensome alternative minimum tax, which has placed an unintended burden on a far wider swath of taxpayers every year. Going even further, we proposed solutions that would reduce or eliminate most of the complexity and unfair impact of the tax while minimizing revenue loss to the government.

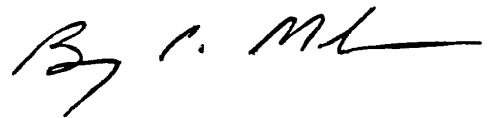
Our position against tax strategy patents drew attention to a little-publicized issue we know is harmful to the taxpayer community. We likewise weighed in on the Internal Revenue Service's options to close the gap between what taxpayers legally owe and what has actually been collected — a \$290 billion threat to government programs and services.

The past year saw a transformation in the Institute's operations as we settled about two-thirds of our functions in our new offices in Durham, N.C. Beginning in August 2006 and concluding in August 2007, the relocation stayed on schedule and on budget. The AICPA is a proud citizen of a vibrant community and in a short time has established itself as a local leader and an attractive employer. Our new and relocated staff members in the Raleigh-Durham area and those who chose to remain in our other offices have created a robust, enthusiastic environment dedicated to excellence in serving our membership.

No matter what the topic or issue, though, all our efforts are crafted to fulfill one ultimate purpose: to work on behalf of the public good. CPAs have a unique professional commitment to service, community and making life better for individuals and businesses. It is our privilege, as leaders of this time-honored organization, to oversee the operations of hundreds of staff and member volunteers who contribute significantly to the financial well-being of this country and represent this profession with integrity. We have many successes from the past year to celebrate, which you will read about in the following pages. Our exciting, productive journey continues, and we're happy to have you traveling with us.



Jimmy L. Williamson, CPA
Chairman



Barry C. Melancon, CPA
President and CEO

Monitoring Laws and Rules



Plotting the best course to efficiently reach a desired destination requires working with those who can help direct your movement and push you forward. Through outreach efforts with legislators and regulators on important issues affecting the profession and those served by it, the AICPA helps CPAs navigate the new environment while supporting the public interest.



Ensuring the Capital Markets' Effectiveness

As auditors, the CPA profession ensures that financial statements released to the public appropriately reflect a company's financial position. **At two high-level meetings in March 2007 in Washington, D.C., the AICPA presented members' perspectives on the competitiveness of the capital markets and the accounting profession's role in ensuring the markets' effectiveness.** A Treasury Department conference showed that America's financial leaders see the need for a balanced regulatory environment that trusts, rather than second-guesses, an auditor's judgment. As a result of the meeting, in June 2007 Secretary of the Treasury Henry Paulson Jr. announced a new Committee on Auditing, which will examine the sustainability of a strong and vibrant auditing profession. At the U.S. Chamber of Commerce's Capital Markets Summit, the AICPA emphasized that the capital markets and regulatory structures should support a broad choice of audit firms.

Working with Legislators

In a major, hard-fought victory for the profession, **President Bush on October 13, 2006, signed into law the Financial Services Regulatory Relief Act of 2006, which contains a provision that exempts CPAs from the Gramm-Leach-Bliley Act's annual privacy notification requirement.** This new law benefits both CPAs and their clients. The disclosure statements required often were confusing to clients as well as

expensive and time-consuming for CPAs to prepare. The AICPA has worked with lawmakers since the enactment of the Gramm-Leach-Bliley Act to achieve the change. Because they are certified or licensed by state boards of accountancy, CPAs already are subject to state laws and Internal Revenue Service (IRS) regulations that prohibit disclosure of nonpublic personal information without client approval.

The internal control requirements of Section 404 of the Sarbanes-Oxley Act of 2002 have received significant attention from lawmakers. **Pressure from the business community to ease Section 404 requirements still exists and the AICPA is carefully monitoring developments.** In June 2007, the House of Representatives passed an amendment to extend the current moratorium for Section 404 compliance for small businesses through fiscal year 2008. Congressional hearings have been held in the House Small Business Committee and the House Financial Services Committee.

Protecting the nation's homebuyers and the soundness of the Federal Housing Administration (FHA) also is important to the CPA profession. **The AICPA worked last year to defeat the FHA reauthorization bill that would have abolished the yearly audit requirement for approximately 7,500 non-supervised mortgagees and loan correspondents who make up nearly 50% of all FHA loan production.** The AICPA argued to Congress that this yearly audit is the only tool the Federal government has to ensure that those who offer FHA loans do so in accordance with all the applicable laws and regulations. In this year's new Congress, legislation was introduced that largely maintains the current FHA audit requirement. The AICPA joined with the National Association of Black Accountants, the Mortgage Bankers Association and America's Community Bankers in opposing any congressional effort to remove the audited financial statement requirement for mortgage brokers originating FHA loans.

Standing for Tax Fairness

The AICPA has a long, documented history of supporting CPAs as the premier tax professionals in the country. In offering CPAs' tax expertise as a resource to governmental and regulatory bodies, the profession during the past year has mapped out reforms to encourage simplicity, compliance and fairness in our nation's tax system.

One pressing public interest concern for which the AICPA has stepped up its efforts is the tax gap – the difference between what taxpayers legally owe and what actually is collected. Currently standing at more than \$290 billion, the tax gap jeopardizes the effectiveness of Federal government programs and services.

To address the issue, the AICPA provided the IRS Oversight Board with insights on its options for closing the gap; urged simplification of the tax code to improve compliance; and supported full funding of the IRS so it has the necessary manpower and resources to determine and collect taxes. In addition, in June 2007 the AICPA, along with the American Bar Association Tax Section, the American Tax Policy Institute, the Tax Executives Institute and the American College of Tax Counsel, sponsored the "National Conference on the Tax Gap." This Capitol Hill conference enabled leading tax experts to discuss the appropriate definition and measurement of the tax gap, causes and behavioral issues underlying tax law compliance and non-compliance, and practical solutions.

This year, another threat to tax law compliance arose: **the issuance of patents on tax strategies.** Since the Patent and Trademark Office began issuing patents for "business methods" in 1998, 60 patents have been granted for tax-planning strategies. Moreover, 99 applications are pending. The AICPA has worked tirelessly to express its opposition to such patents, saying they are contrary to sound public policy because they undermine the integrity, fairness and administration of the voluntary tax compliance system. A task force mobilized various communications efforts with CPAs, the state CPA societies and others regarding possible legislative solutions. In February, an AICPA position paper including an issue analysis and recommendations was sent to the tax-writing and judiciary committees of Congress. **Congress has listened to the Institute's concerns:** On September 7, 2007, the House of Representatives passed legislation that would prohibit patents on tax planning methods. The tax strategy prohibition language was included in the Patent Reform Act of 2007, the culmination of hard work and legislation introduced earlier in 2007 to curb the growing problem of tax strategy patents. The AICPA is working on having a companion bill introduced or incorporated into the larger patent reform bill in the Senate.

Another issue on which the AICPA is focusing its efforts is the Small Business and Work Opportunity Tax Act of 2007, signed into law on May 25, which made significant changes to tax return preparer penalties.

One provision the AICPA opposes requires return preparers to achieve the **“more likely than not” standard for every undisclosed position taken on a tax return.** This change is likely to result in higher return preparation expenses and client fees, and places the preparer in the difficult position of being subject to a higher standard than his or her clients. The provision also increases the dollar amount of the penalties and applies penalties to a broader range of returns than prior law. Members were informed of the law’s potential pitfalls through timely electronic notices and articles in publications so they could avoid penalties for their firms and their clients. In June, the AICPA was instrumental in the IRS granting transitional relief. Moreover, the AICPA continues to seek a legislative remedy from a variety of the law’s provisions. As part of this effort, the AICPA has been successful in obtaining support for its legislative initiative from other professional organizations and 30 state CPA societies.

The alternative minimum tax (AMT), created nearly 40 years ago to ensure America’s wealthiest citizens paid at least some taxes, captured nearly 4 million taxpayers on their 2006 returns. This increase primarily is due to the AMT having never been indexed for inflation. **In April 2007, the AICPA called on Congress to repeal the individual AMT,** saying that unless Congress acts, 23.4 million taxpayers are likely to be affected in 2007. Additional reasons to jettison the AMT include its increasing complexity and compliance problems. While repeal is preferred, the AICPA recognizes that simply eliminating the AMT would result in a large loss of tax revenue. Consequently, **the AICPA urged Congress to consider its “baker’s dozen” of alternative solutions** that the Institute believes would reduce or eliminate most of the complexity and unfair impact of the current AMT.

Interstate Practice Privileges

The AICPA recognizes that one of the most significant issues impacting CPAs and CPA firms is interstate practice privileges. Clients and employers want their CPAs to be able to work across state lines.

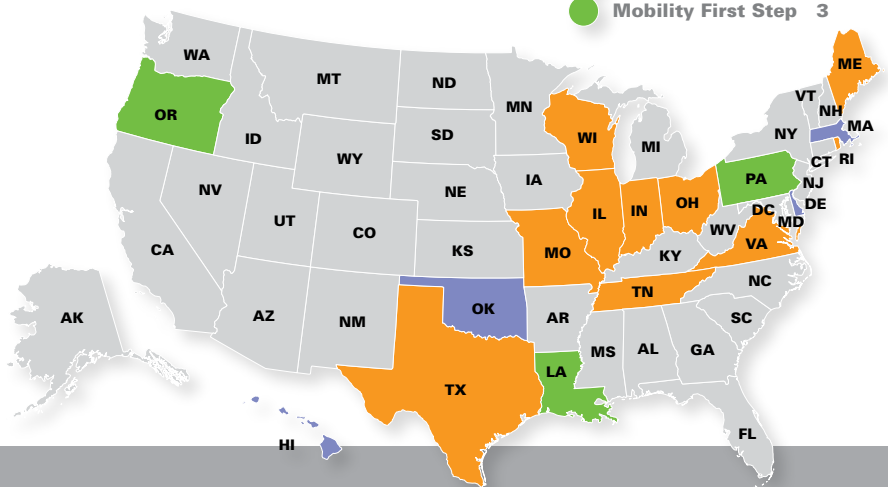
In the past few years, **it has become clear there is little uniformity in state requirements for out-of-state licensees.** In fact, some states are requiring CPAs and firms to register even if the CPA never physically enters that state. This issue impacts everyone – from the sole practitioner to the largest firms to business and industry. Together with the time and effort associated with complying with multiple and differing practice privilege requirements, there are significant barriers to getting the right CPA to the right place at the right time to serve the client’s business needs.

In 2006 and 2007, **the AICPA and the National Association of State Boards of Accountancy (NASBA) worked together to revise the AICPA/NASBA Uniform Accountancy Act (UAA) to remove the notification requirement from substantial equivalency** – the model provision that states are pursuing to enact a uniform national mobility system. Working collaboratively with NASBA, state CPA societies and state boards of accountancy, 10 states have moved forward in 2007 to enact the proposed revisions.

To keep the momentum going, the AICPA developed a resource binder for the state societies. The binder’s materials are used to educate both the state societies and their members on the significance of states enacting no-notification legislation. In addition, joint efforts among the AICPA, NASBA and the states have been fruitful. One result, for example, is development of the “Tennessee Mobility Experience” DVD documenting the success and importance of mobility to the accounting profession.

States with Mobility or Legislative Action

- Mobility 10
- Legislative Action 4
- Mobility First Step 3



Much progress has been made this year to allow mobility across state lines. The new Uniform Accountancy Act, approved in July 2007, will further encourage the process.

Piloting our Public and Professional Responsibility



For more than a century, the CPA profession has held itself to the highest standards. Audit quality centers, professional standards, a commitment to ethics and peer review combine forces to assure the profession's accountability to those it serves.

Driving Audit Quality

Nowhere is the commitment to professional responsibility more critical than in the audit arena, the hallmark of the CPA profession. Three audit quality centers enable CPAs to get important information and resources so they can provide the highest-quality audit work to clients.

On January 30, 2007, **the AICPA launched the Center for Audit Quality (CAQ)**, www.thecaq.org. Created for all firms auditing public companies, the CAQ expands and replaces the AICPA's Center for Public Company Audit Firms. The CAQ aims to foster confidence in the audit process and aid investors and the capital markets by advancing constructive suggestions for change rooted in the profession's core values of integrity, objectivity, honesty and trust. The CAQ immediately began a series of public dialogue tours around the country and outreach to new constituencies – particularly in the investor community. Serving as a clearinghouse for the CAQ's research, messages and materials, its Web site has become a destination for stakeholders seeking information on substantive, constructive ideas on the audit process – both the public and the public-company auditing profession.



Approximately 800 member firms are provided with information and tools to assist them in navigating through the regulatory environment of auditing public companies. These activities, along with the strong, unified voice it presents for the public company auditing profession on regulatory issues, have set a foundation for the next year and beyond.

The Employee Benefit Plan Audit Quality Center, www.aicpa.org/EBPAQC, celebrated its third anniversary in March 2007 and continues to grow, reaching 1,370 member firms and representing more than 80% of ERISA audits performed annually. Members gain an edge on audit performance through electronic alerts, conference calls and helpful tools. An online forum attracts more than 1,300 participants discussing nearly 800 topics, enabling member firms to share experiences and knowledge. A new *Plan Advisory on Effective Monitoring of Outsourced Plan Recordkeeping and Reporting Functions* helps members in their efforts to obtain quality accounting information from their plan clients. The center also has developed resources to guide plan sponsors in hiring qualified auditors.

The **Governmental Audit Quality Center, www.aicpa.org/GAQC**, marked its third anniversary in September 2007. **Its current membership of more than 800 firms audits more than 82% of Federal expenditures covered in annual single audits.** The center provides its members with many tools to help them negotiate the complexity of audits performed under *Government Auditing Standards* and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Electronic alerts and newsletters, conference calls, an annual Webcast and other helpful materials are examples of the center's extensive resources. The center's Web site also features an online forum for member firms to post questions and answers. Additional GAQC efforts include working with the OMB and other Federal agencies to review, study and respond to the results of a recent Federal single audit quality study; many center activities will likely develop out of this process. Further, the center will work to educate other stakeholder organizations involved in the single audit process about the importance of hiring qualified auditors.

Crafting Professional Standards

Professional standards direct and guide the CPA's work. But to be useful, standards must be clear, consistent and ready for implementation.

The AICPA takes seriously its role in providing CPAs with the best information and tools to help them deliver high-quality and efficient services.

The Auditing Standards Board (ASB) is currently involved in a significant effort to address the clarity, complexity and length of existing standards. The ASB believes that "clarifying" will make standards more understandable and consistently applicable.

To help practitioners better understand and implement the requirements of **Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit***, the AICPA developed an audit risk alert, conducted numerous Webcasts and audiocasts, and prepared articles for various publications. A new toolkit focused on helping smaller CPA firms better comply with SAS No. 112.

During the past year, the Accounting and Review Services Committee (ARSC) continued to provide standards and guidance for practitioners performing compilation and review services. **One important effort was issuance of Statement on Standards for Accounting and Review Services No. 15, which eliminates references to auditing standards within compilation and review literature and instead incorporates guidance to assist practitioners who do not perform audit engagements and, therefore, may be less familiar with the auditing literature.**

Another topic being considered concerns independence in compilation engagements relating to a CPA's activities for management that improve the quality of a client's financial information.

A growing practice area for CPAs has been business valuation. In fact, **more than 25,000 CPAs currently provide business valuation, forensic and litigation services. To improve practice consistency and performance quality for business valuation services, in June 2007 the AICPA released its first standard in this area.** The Statement on Standards for Valuation Services No. 1: *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset*, www.aicpa.org/bvstandard, was a collaborative effort of a broad spectrum of AICPA stakeholders. It provides valuable guidance for all CPAs who perform valuation services and promotes greater transparency

for clients and others. A new toolkit helps members understand and implement the new standard.

Understanding Ethics

Independence is a cornerstone of the profession's ethics and applies to CPAs when performing attest services. Independence standards define how performing certain activities impairs independence, including activities that may actually improve the quality of a client's financial information by increasing its reliability.

The AICPA has begun to explore an alternative reliability framework for certain attest services performed for non-public entities that considers the importance of the enhanced reliability of financial information. This framework could establish foundational elements to maximize and control reliability, such as independence, integrity, expertise and competence. The result could be that a CPA would be able to apply a different threshold of independence when the work he or she does for certain clients improves information reliability.

Ethics is driven not only by standards and rules, but by culture as well. This past year **the AICPA produced a video entitled "Fraud and the Tone at the Top,"** www.aicpa.org/antifraud. The video, developed in partnership with the Association for Certified Fraud Examiners, looks at the important connection between fraud and the tone at the top of an organization. It featured a former MCI/WorldCom employee arrested and imprisoned for 41 months for money laundering, wire fraud and obstruction of justice. By telling his story of deceit, the employee provides insight into the conditions that make fraud more likely at a company and what can be done to prevent it from happening in the first place.

Supporting Peer Review

Part of CPAs' commitment to professionalism is peer review. **To improve the efficiency and effectiveness of the peer review process, the AICPA Peer Review Board (PRB) in April 2007 issued an exposure draft containing proposed revisions to the AICPA Standards for Performing and Reporting on Peer Reviews (Standards) and Interpretations to the Standards.** A product of two years of

extensive examination, the exposure draft proposes to create one set of Standards and Interpretations within the AICPA Peer Review Program for all members subject to peer review. One of its proposals is to merge the Center for Public Company Audit Firms Peer Review Program and AICPA Peer Review Program. Other proposals include a reengineered and more understandable reporting process, changes to engagement and report reviews, and more principles-based Standards. The exposure draft contemplates that the revised Standards and Interpretations will be effective for peer reviews commencing on or after January 1, 2009.

In addition, with the goal of meeting marketplace demand for increased transparency, **the profession explored ways to make peer review results more accessible to regulators.** After thoroughly evaluating and considering many options, the AICPA Board of Directors and the PRB approved a new approach responsive to all stakeholders. This approach involves a voluntary agreement by firms subject to peer review to include their results on a secure Web site accessible only to state boards of accountancy. The entire process will be tailored for and access will be available only to state boards requiring peer review for re-licensure and not prohibited by law from access to peer review results. The process is currently being developed with a pilot projected for several state CPA societies in late 2007, with early implementation in 2008 based on the pilot results. Full implementation is expected in conjunction with the revised peer review standards in 2009 and has garnered favorable state board response.

In response to a shrinking pool of peer reviewers, the Peer Review Board has begun a comprehensive campaign to recruit and train new reviewers. Various toolkits were developed to assist state societies in attracting potential reviewers and for new reviewers to market their services and perform reviews more efficiently. The initiative also includes a mentoring program currently being developed to pair new reviewers with more experienced ones. Free subscriptions to the *Peer Review Manual* will be available to qualified individuals who complete training and enroll to become reviewers.



The first standard issued in the business valuation area will improve practice consistency and performance quality for such services.

Guiding Financial Reporting

Financial statement users want to know that the information they are given is comprehensive, relevant and meaningful. Improved financial reporting has been the profession's focus for well over a decade.

Reinforcing the Value

The Assurance Services Executive Committee (ASEC) has been drafting a white paper to build the profession's awareness of emerging reporting and assurance opportunities and to outline a plan supporting the profession's continued importance and sustainability in a changing world. The paper is scheduled to be exposed to key stakeholders in fall 2007. ASEC also established two task forces: the ASEC XBRL Assurance Task Force and the ASEC Data Integrity Task Force. These groups will work to forward ASEC's mission of assuring the quality, relevance and usefulness of information for decision makers and other users by identifying and prioritizing significant trends and market needs for assurance, and developing related guidance and tools.

Modernized Information Going Global

The AICPA and the CPA profession continue to play a strong and leading role in supporting the global development and adoption of eXtensible Business Reporting Language (XBRL), www.xbrl.org. **The AICPA currently holds a seat on the XBRL International Steering Committee**, which governs XBRL International. **The AICPA also is a founding member and currently holds a seat on the Interim Board of Directors of XBRL US, Inc.**, the United States jurisdiction of XBRL International. Also in 2006, the Securities and Exchange Commission (SEC) 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 was a \$5.5 million contract with XBRL US, Inc. The development of U.S. generally accepted accounting principles financial reporting taxonomies was completed in September 2007.

Accounting for Differences Between Public and Private

Significant progress has been made this year in recognizing the need for different accounting standards for private companies. In late 2006, **the Private Company Financial Reporting Committee (PCFRC), www.pcfrc.org, was formed.** The committee's mission is to recommend to the Financial Accounting Standards Board (FASB) whether and where there should be differences in prospective and existing accounting standards for private companies. Both users and preparers of private company financial statements, as well as CPA practitioners, are represented on the PCFRC.

The committee held its first meeting in May 2007 and another in July. As a result, two recommendation letters were sent to the FASB. One concerned subsequent events and the other addressed a proposed FASB staff position related to materiality. Moreover, the committee is conducting preliminary outreach on issues that private companies are facing with two existing FASB interpretations.



Moving from Financial Information to Business Reporting

Investors, creditors, bankers and others want to see beyond the numbers in financial reporting and get a fuller view of an organization's position, direction and outlook. To achieve this outcome, non-financial measures have to be incorporated. **The Enhanced Business Reporting Consortium (EBRC) has completed a second version of the EBR framework, www.ebr360.org.** This revised framework serves as the basis for discussions on how the EBR framework and related XBRL taxonomies can enable more effective XBRL tagging of information reported outside of the financial statements, including Management Discussion & Analysis and other non-financial 10K filing elements, company Web sites and annual reports. **The EBRC continues to collaborate with related groups to build and lay the foundation for a global, market-driven framework development and maintenance program.**

An EBRC task force is moving forward with experimental research focusing on identifying the relative value users place on different components of the financial statements and footnotes. This research project was awarded

a National Association of Securities Dealers Foundation grant for improving disclosures to investors, and findings will support efforts to address complexity in financial reporting.



Enhanced Business Reporting is improving transparency and enhancing capital market efficiency by addressing marketplace demands for accurate and relevant business information.



Gaining Momentum Toward Globalization

Today, a nation's borders exist only in the physical sense. By standing at the bow, the AICPA can ensure the effectiveness of the CPA profession's work in an expanding international economy.

Convergence on the Horizon

In the spirit of supporting converging auditing standards around the globe, **the Auditing Standards Board continues to implement an ongoing process, adopted in 2005, to harmonize U.S. generally accepted auditing standards (GAAS) with the International Federation of Accountants' (IFAC) International Standards on Auditing (ISAs).** As each ISA is released, it is analyzed to determine whether the U.S. has any different needs that should be addressed. This determination, made in consultation with the Public Company Accounting Oversight Board, the Government Accountability Office and others, also serves to avoid the creation of unnecessary differences between GAAS and those organizations' standards. During the past year, the ISAs were recognized by the European Commission.

Working with International Bodies

Demonstrating America's growing prominence in international accounting issues, former AICPA Chairman of the Board Robert L. Bunting became the newly elected Deputy President of IFAC in November 2006. After two years in that position, Mr. Bunting will become IFAC President – the first one from the U.S. since 1987.

The AICPA is the largest member body in IFAC, which has 155 member bodies representing 118 countries. The AICPA also has effective representation on the four standard-setting boards in IFAC covering auditing, ethics, education and public sector standards, as well as representatives on several other IFAC committees.

In December 2006, IFAC proposed significant revisions to its independence standards for accountants. As an IFAC member body and in the spirit of harmonizing international standards, the AICPA considers all of IFAC's proposed revisions for its own Code of Professional Conduct. A number of the proposals were more restrictive than those of the AICPA. One was to extend the more restrictive listed-entity independence requirements to the audits of "entities of significant public interest." **The AICPA recommended that IFAC not mandate that all of the listed-entity requirements be applied to non-listed entities of significant public interest** and to allow IFAC member bodies to work with their regulators to determine whether any such requirements would be appropriate.

Recognizing that many CPAs already work in foreign countries and accountants from those countries may be working in America, the AICPA joined eight other accountancy institutes to form the Global Accounting Alliance (GAA). As part of this alliance, www.aicpa.org/gaa, **AICPA members on assignment overseas in England & Wales, Scotland, Ireland, Canada, Australia, New Zealand, South Africa and Hong Kong are eligible to receive benefits, such as attendance at education programs, electronic newsletters, and technical hotline and library services, at local member rates.** Likewise, GAA institutes' members visiting the U.S. are eligible to receive similar AICPA benefits.

Taking Privacy International

With most organizations facing challenges in managing privacy on a local, national or international level, businesses encounter a number of differing privacy laws and regulations that need to be embedded in policies and procedures. **The AICPA, in partnership with the Canadian Institute of Chartered Accountants, responded to these new requirements by publishing *Generally Accepted Privacy Principles (GAPP) – A Global Privacy Framework*, www.aicpa.org/privacy.** The new GAPP expands on the profession's original privacy framework to directly address marketplace trends, such as outsourcing and the growing international focus on privacy. It also includes a new section that provides step-by-step guidance on how businesses and other entities can use the document.



Robert L. Bunting, a former AICPA Chairman of the Board of Directors, will become IFAC President in November 2008 after two years as Deputy President.



Boosting Business & Industry Members Nationally and Internationally



Comprising more than 40% of the AICPA's membership, CPAs in business and industry received an added boost this past year. Several efforts focused on enhancing CPAs' knowledge and skills and raising awareness of a CPA's value outside of public accounting.

New Alliances Lead to Greater Resources

To help CPAs in business and industry guide to greater success the companies and industries they serve, **the AICPA continues to develop resources and build relationships that drive innovation.** The Business, Industry and Government Team has expanded its strategic partnerships to ensure members today and tomorrow have the resources and knowledge to succeed in the evolving global economy. This activity includes enhanced collaboration with CMA Canada and the United Kingdom's Chartered Institute of Management Accountants (CIMA), as well as the American Accounting Association. By working with other top accountancy bodies, the AICPA provides CPAs in business and industry with networking opportunities and practical knowledge on a wide variety of subjects.

These strategic relationships have generated a number of initiatives already under way or in development. **The Management Accounting Guidelines (MAGs), developed with CMA Canada and CIMA, continue to address key issues facing CPAs in business and industry.** Recent MAGs included a suite of risk topics, strategy mapping and evaluating Internet marketing effectiveness. Upcoming MAGs will guide CPAs on finance and accounting outsourcing, intellectual capital and customer value. To facilitate members' use of the guidelines, they are available free from the Financial Management Center Web site, www.aicpa.org/fmcenter.

In September 2006, **the AICPA introduced free Infocasts – live, Web-based presentations covering key management accounting topics.** These interactive events attracted participants from around the globe. Recent Infocast topics included social and political risk assessment, information technology (IT) performance measurement, business continuity management, developing strategy maps and evaluating Internet marketing initiatives.

The annual **International Financial Executives Leadership Forum**, conducted in partnership with CMA Canada and CIMA, premieres in Montreal in October 2007.

In 2008, it will be held in the U.S. and in 2009, it travels overseas to the United Kingdom. This ground-breaking conference features international keynote speakers and expert panelists from around the world. Geared to chief financial officers, finance directors, treasurers, vice presidents of finance and group controllers, the conferences will focus on critical global business issues and the evolving role of today's financial professional.

The AICPA also continues to partner with the American Accounting Association Management Accounting Section to provide thought leadership,

bridge the worlds of academia and accounting practice and cultivate the next generation of business and industry CPAs. As part of this collaboration, **the AICPA is funding research grants on critical business topics.** Projects being completed in 2007 focus on supply chain management, executive bonus plans and incentive contracts of business unit controllers. Demonstrating its commitment to management accounting research, the AICPA increased its level of funding for the program's second year. Grants awarded for 2007-2008 support research in foreign sourcing, enterprise risk management and performance measurement.

Building Careers for Business and Industry Members

The AICPA also continues to provide financial managers and executives with the tools and resources needed to move their organizations and careers forward. These include **Take Charge of Your Career – A 5 Step Guide for Current and Aspiring CPAs**, a brochure created to make career planning easier for today's CPA. Available free from the Financial Management Center, www.aicpa.org/CPACareerPath, the guide includes tips and tools to avoid career stagnation and move closer to goals and aspirations. When used with the AICPA Competency Self-Assessment Tool (CAT), www.cpa2biz.com/CAT, the guide can help current and aspiring CPAs assess their proficiencies and compare them with the highest and most valued in specific areas. CAT competency models are tailored according to how CPAs practice, with new models added continually. To further enhance this valuable career planning and development tool, models are being created for audit committee members and CPAs working in information technology.

Continuing to Strengthen Audit Committees

The Audit Committee Effectiveness Center, www.aicpa.org/audcommctr, continues to be one of the most frequently visited locations on the AICPA Web site. The original AICPA Audit Committee Toolkit for public companies and the not-for-profit and government versions have been very well received. In response to member requests, this past spring CPA volunteers were solicited to work on a private company version of the AICPA Audit Committee Toolkit. An updated edition of the public company toolkit and the new private company version will be available in fall and winter 2007, respectively.

Showcasing CPAs' Economic Leadership

The business perspectives and forecasts of CPA executives are shared with members – and the media – through the AICPA's quarterly Economic Outlook Surveys. The surveys target CPA decision-makers in public and privately held companies, government agencies and not-for-profit organizations. Result summaries are distributed to the general media, positioning CPAs in business and industry as economic thought leaders.

Serving CPAs in Government

The AICPA's Government Performance and Accountability Committee (GPAC) guides the Institute as it supports CPAs working in all levels of government throughout the country. GPAC strives to spread the word about the valuable roles CPAs play in government accountability and public protection, and to expose other members of the profession to government careers. To achieve this mission, the AICPA is focusing on developing cooperative relationships with other government accountancy bodies and is creating a Web presence for government CPAs within the Financial Management Center. Additionally, the Institute will tout the benefits of being a CPA in government through its student recruitment efforts.



The Audit Committee Effectiveness Center, accessible from the Financial Management Center, receives more than 500 Web visits daily.

Enhancing CPAs' Services through Member Sections and Credentials



The Institute provides the technical information, practice management resources, marketing support, advocacy and specialized credentials to foster firms' success.

Helping Small Firms Achieve Success

The AICPA and the Private Companies Practice Section (PCPS) together provide the resources, information and tools small CPA firms need to achieve their goals. **Approximately 45,000 CPA firms that serve small businesses and private companies look to the AICPA for a host of programs and benefits to help them provide quality services to clients — and achieve success, efficiency and profitability.** Of those firms, more than 6,000 are members of PCPS, www.aicpa.org/pcps.

To address the needs of small firms, **PCPS held eight Practice Management Web Forums** on topics such as Statement on Auditing Standards (SAS) No. 112 on internal control communications, performance management, strategic planning, value pricing and value-added services. Due to SAS No. 112's importance and complexity, PCPS also released a toolkit to assist members with communicating with clients, including frequently asked questions, sample letters and a talking-points document.

Finding and retaining qualified staff is a top issue facing CPA firms today. In 2006, PCPS conducted **a new survey of firms' high-performing staff.** The *PCPS Top Talent Study: Gaining a Strategic Advantage in Recruiting and Retention* empowers firms

to identify gaps in their understanding and develop an action plan for attracting and keeping top talent. The publication, available to PCPS member firms as a complimentary benefit, includes invaluable insight, advice and practical tools.

In addition, PCPS launched the PCPS Human Capital Center to provide firms with one central source for their staffing and retention needs. When complete, this center will host 11 critical areas with learning, tools and articles to implement a best practice human capital strategy. Three of the sections have gone live; the remaining ones will go live in phases over the next year. **The Emerging Partner training program** continued to be very popular and sold out in its second straight year.

Small firms find it helpful to compare themselves to similar-sized firms to judge their management practices. PCPS and the Texas Society of Certified Public Accountants again presented the **PCPS/TSCPA National MAP Survey**. The 2006 survey, from which practitioners can glean more comprehensive data than ever before, provides comparative inter-firm data that helps accounting practices benchmark themselves against the best in their class. Through the survey, CPAs can identify the strong areas of their practices and better understand where they face challenges. Meaningful advice describes how to work toward achieving top performer results. PCPS shared the findings of this and the Top Talent Study with the state CPA societies through a Web forum.

What's more, PCPS launched a number of new tools this year. **Seasonality Success, a quarterly publication with tools and practice aids, helps firms better manage the busy season.** Also, the Small Firm Advantage, an initiative that centers on tools and education enabling small firms to better articulate their unique advantage in

attracting clients and staff, went into full swing with ready-to-use downloadable brochures and the creation of education courses.

Small firm advocacy included input and working dialogue regarding the recently released business valuation standards, a proposed Statement on Standards for Tax Services exposure draft, professional ethics rules and an IFAC exposure draft dealing with significant public interest entities. PCPS' Technical Issues Committee continues to provide the valuable small firm perspective directly to standard setters, such as the Financial Accounting Standards Board, in comment letters and in liaison meetings and offers advice on creating understandable, workable guidance. Small firm advocacy actively continues across all areas affecting the profession.

Entering a new frontier, **a working alliance was forged with the U.S. Small Business Administration** to strengthen relationships and programs with the AICPA and with CPAs and their clients throughout the U.S.

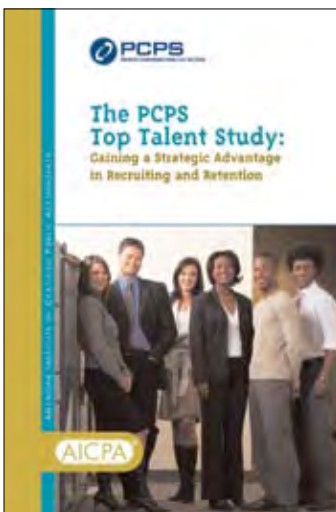
Building CPAs' Practices through Specialized Communities and Credentials

Four specialized communities provide members with technical information, marketing guidance, skills development and networking opportunities. Three of them also offer and support credentials to demonstrate a CPA's competence in those niche areas.

The Personal Financial Planning (PFP) community, www.aicpa.org/pfp, including members of the PFP Member Section and holders of the Personal Financial Specialist (PFS) credential, continues to grow, with more than 3,900 members having attained the PFS credential. PFP community members receive discounts for PFP-related AICPA conferences; free or discounted access to Web seminars targeted to the PFP community; and tools and resources for financial planning, including a practice management column in *The Planner*. A new marketing toolkit was released in early 2007 for PFS credential holders, who also received increased visibility through a daily tax question and answer posted on USAToday.com during the 2007 tax season. Members in this area also continue to participate in the AICPA Financial Literacy initiative's online "Ask the Money

Doctor," where they serve as volunteer "financial doctors." Money managers, including financial advisers, wealth managers, trustees and investment committee members, will be better able to fulfill their duties, thanks to a newly revised handbook, *Prudent Practices for Investment Stewards*, an update of *Prudent Investment Practices: A Handbook for Investment Fiduciaries*, www.aicpa.org/pfp. In fall 2007, a second handbook, *Prudent Practices for Investment Advisors*, will be released to PFP section members. The PFP Executive Committee's Fiduciary Task Force provided technical review of these two guides.

On the horizon, the PFP Executive Committee plans to assess and refine its Statements on Responsibilities in Personal Financial Planning to meet the evolving needs of financial planners and the public they serve.



PCPS' Top Talent Study and other resources are helping smaller CPA firms attract and retain qualified staff as well as get the support and information firms need to succeed.

Another rapidly growing area is business valuation. **The AICPA continued its efforts this year to attract CPAs to the Accredited in Business Valuation (ABV) credential through its Business Valuation School, promotion of the ABV exam and a special sponsor program.** More than 400 new ABVs have joined the ABV credential community in the past year. Business Valuation and Forensic & Litigation Services (BVFLS) Section members and ABV credential holders continue to receive practical benefits, including access to specialized information, discounts on products such as Daubert Tracker and Integra, and advocacy and outreach to the broader BVFLS community. The AICPA has established relationships with several member sections of the American Bar Association and is pursuing initiatives that have the potential to benefit both organizations.

In 2007, **the National Accreditation Commission initiated an active process to determine the feasibility and market acceptance of a potential new credential in forensic accounting services.** The initial design was vetted in a number of venues, including four regional meetings of the AICPA governing Council. Research, market studies and surveys continued into early fall 2007 with a report and recommendation to Council ensuing in spring 2008.

Information technology (IT) has been exploding across all aspects of life. **For CPAs, the IT community, consisting of the IT Member Section and the Certified Information Technology Professional (CITP) credential, has seen significant enhancements and continued growth this past year.** Members benefited from exclusive tools and resources based on the Top Technology Initiatives, including a Top Technology toolkit, Web seminars and communications on selected Top Technology topics. Also, the AICPA raised awareness of the CITP credential and the IT Member Section through promotions and alliances with organizations such as the Information Systems Audit and Control Association (ISACA), the Information Technology Alliance (ITA) and state CPA societies.

When it comes to taxes, the CPA profession is recognized as the premier provider of tax planning and compliance services to the public, and for helping clients cope with the tax law's complexity and changes. **Among its numerous resources to help CPAs provide businesses, individuals and the public with high-quality work and service, the Tax community issued a practice guide on accounting for uncertain tax positions** that has been downloaded more than 30,000 times. The practice guide, www.aicpa.org/tax, was a joint project of the Accounting Standards team, the Audit and Attest Standards group and the Tax staff to help AICPA members as they assist clients. In addition, the Tax Section's E-Alerts have been very useful to members. These have covered Federal legislative and regulatory developments, practice management concerns and technology issues, providing practical tips on dealing with issues such as the higher "more likely than not" penalty standard for tax return preparers.

Top Technology CASE STUDY

Mobile/Remote Computing Case Study: Project Balance

EAF Financial Group, Braintree, Massachusetts

Mobile and remote computing delivered an eye of the AICPA's 2007 Top Technology Initiative, reducing the accounting profession's interest in technologies that support working in the field or out of the office. The work in which CPAs and accountants use office space technologies continues to evolve, especially at EAF Financial Group, where Project Balance is a public, working solution to getting more work done without being tied to the office.

Electronic and Remote Communication is Key

Project Balance was launched in March and April. Partner success is seen for almost every night. Whether an empty office or holiday—most during busy seasons. This is a real year-round— it is real, and it works. For EAF Financial Group in Braintree, Massachusetts.

The team of IT consulting, low-cost business solutions has a strong commitment to providing clients outstanding levels of expertise and exceptional service. Because of our continuous investment in technology, we are able to provide our clients with the most current and secure solutions. We recently looked at ways to radically change the way the company and its people work. Project Balance was born.

"This no longer had to be the office. I usually travel so you can have dinner with me here by and catch up with my kids," says Mark Albrecht, USA, a partner with EAF. "When they do their tax returns or go to bed, I talk to my office to get work done."

How business, software and networking technologies helped launch this radical change. The EAF staff were ready to wear their shirts, who had become accustomed to -- and were performing -- electronically communicating with the staff in the staff office, however from partners to administrators believed that effective work, the balance would make them happier while improving the firm's service.

Project Balance: A Paperless, Always-On Solution

Industry trends indicate mobility and remote computing is only going to increase. According to an April 2008 Deloitte Consulting report, "Eye to the Future -- New Technology, Work and Telecommunications, delivered today. Change the way the firm works. The number of employees with laptops or mobile e-mail is expected to rise from the current 60% to 80% by 2012. EAF's Project Balance initiative has three main components. It is a digital partner office, it mobile device containing their app, and it new processes that allow people to work at a more flexible work environment.



A case study done as part of the Top Technology Initiatives effort shows how firms and organizations can employ mobile and remote computing technologies to increase productivity, improve customer service and enhance recruitment efforts.

Optimizing Performance



To help others, you have to first help yourself. The AICPA this year streamlined operations, increased output and upgraded its technology so it could move efficiently and effectively to help members boost their performance.

Delivering News and Guidance CPAs Can Use

In response to member feedback, the AICPA's monthly newsletter, ***The CPA Letter***, **www.aicpa.org/TheCPALetter**, launched two enhancements to the existing online version. By producing an issue's more significant and time-sensitive articles in Web-page format with headlines to those articles listed on one page, members no longer have to access a large file and go through all the pages to see what is most important. In addition, a new article index organized by topic covers selected articles in accounting and auditing news, CPA image reinforcement, ethics and professional issues, financial literacy, legislative activities/state licensing, member news, practice management, recruitment/retention of CPAs, regulatory matters, tax, technology and workplace issues/career growth.

The AICPA's monthly magazine, ***the Journal of Accountancy***, redirected its path as well. The magazine introduced several content and design enhancements, adding features and columns on high-interest topics and making them easier to read. In response to member readership surveys, tax, technology and international coverage was increased and the editorial content of several existing columns was updated. **This year saw four new columns – Tax Practice Corner, Legal Update, Washington Report and In Practice – as well as several interviews with high-level compliance and regulatory officials.** The magazine also redesigned its

Web site, www.journalofaccountancy.net, to make it easier to navigate and more user-friendly. In addition, a Web-based manuscript management system was introduced to allow for a faster article submission-to-publication time.

With many member enhancements involving a technological focus, it was fitting for the Institute's Web site, www.aicpa.org, to have its own improvements. **The redesigned AICPA homepage incorporated many new features.** An improved search engine for the site, a user-friendly navigation menu and a clean and professional entrance page

helped enhance the AICPA's online presence as well as the user experience. To ensure the homepage remains current and relevant, "AICPA Highlights" frequently rotates to point out breaking news. Additionally,

clicking the CPA Logo on the top right of the homepage will take users directly to the CPA Marketing Toolkit, which contains the CPA logo and tagline, America Counts on CPAs.

Shoring Up Service to Members

No area of the Institute is more critical in terms of member service than the AICPA Member Service Center. **The Service Center team has direct contact with members and customers throughout the day, and works hard to provide responsive and accurate interactions.** In fact, the quality assurance group within the Service Center audits the work to ensure the Service Center is consistently achieving the high standards established for its operations. The AICPA formed a new area, called Internal Service, as the Member Service central point of contact for all departments within the Institute. By channeling information through this one source, the Service Center can quickly inform its various groups about AICPA initiatives and programs and provide better service to members. Internal controls and customer feedback allow for continuous improvement among the various groups within the Member Service Center.

Addressing the Profession's Expanding Needs through CPA2Biz

As the online needs of the accounting profession continue to expand and CPAs become increasingly more Web-dependent, **CPA2Biz, the Institute's marketing and technology services subsidiary, invested heavily this year in the launch of its Next Generation Web site, www.cpa2biz.com.** The new site's overarching goal was to be more user-friendly to AICPA members who have come to rely on it as a critical resource. CPA2Biz gave special focus to the feedback from CPAs at smaller firms whose businesses are especially impacted when they are unable to find the content and resources they seek quickly and efficiently.

The new site launched in June 2007, the same time CPA2Biz was named to Internet Retailer's Top 500 Guide to Retail Web Sites for the second consecutive year. Built on a powerful new platform incorporating the latest technology from best-in-class partners, the next generation site provides members with improved navigation. It also debuted many new capabilities, including a look-inside-the-book feature that allows users to view tables of contents and key page excerpts, video clips to preview continuing professional education courses and search results with detailed comparison charts.

The AICPA Business Solutions Program continues to grow in popularity with AICPA members at small and mid-sized CPA firms who see it as a way to build stronger client relationships. Since its inception in fall 2003, about 19,000 CPA firms nationwide have enrolled in the program, including payroll, small business banking and 401(k) retirement plan services. Each offering allows firms to provide unique value to clients while ensuring CPAs maintain an ongoing role in the decisions affecting the CPA-client relationship.



To build on the success of the AICPA Business Solutions Program, **CPA2Biz launched its *Trusted Advisor* workshop series in January 2007.** These training sessions were developed to bring the tools, techniques and skills for strategic planning to CPAs looking to expand their role with small business clients from “technical expert” to “premier business advisor.” Between January and July 2007, eight workshops were held in as many cities across the U.S., with an additional 20 workshops planned for the upcoming fiscal year. Historically, course content of this nature has only been available to larger firms in retreat-like settings and at a substantial cost. However, the Trusted Advisor Workshop series packages valuable learning into full one-day sessions at pricing all firms can afford. And through solution-driven sessions, CPAs learn how to translate the issues their clients face every day into tangible opportunities for consulting with them.

Training CPAs

Solid conferences and training programs help CPAs gain professional success. Evidence of the importance of such continuing education to CPAs can be found in the accomplishments of the AICPA's conferences and training efforts.

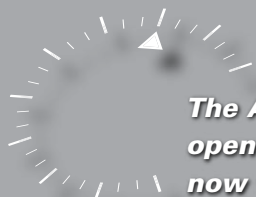
AICPA conferences have continued to exceed attendance targets. Among the year's accomplishments: the Securities and Exchange Commission (SEC) Conference added a Texas video location, the Balanced Scorecard workshop series for business and industry members expanded from one two-day general workshop to three two-day specific workshops and the Institute added a new Emerging Partners II program for smaller CPA firms. The AICPA also returned to New Orleans for the Healthcare and Employee Benefit Plans conferences, which contributed more than \$1.5 million in revenue to the local economy.

The AICPA Learning sales team, which provides training to firms, government and industry organizations, continued to increase its reach, growing by double digits for the fourth straight year.

Part of the success results from continuing enhancements to its Web site, www.aicpalearning.org. In addition, the AICPA continues to build state CPA society participation in the on-site market through sales seminars and assisting state representatives in making on-site sales calls.

Relocation Offers Improved Efficiency

By August 2007, the AICPA completed relocating its New Jersey office and some New York positions to Durham, N.C. Overlapping terms of departing and new employees allowed for the smooth transition of background information and general knowledge to minimize disruptions to members. New computer equipment, information technology services and state-of-the-art workstations boosted productivity and effectiveness in delivering member and customer services.



The AICPA's Durham, N.C., office opened on August 28, 2006, and is now the Institute's largest location.

Filling the CPA Pipeline

With the Baby Boomer generation on the cusp of retirement, one of the greatest challenges facing the CPA profession is attracting, educating and retaining sufficient young talent.

As a large portion of the AICPA's membership heads toward retirement, the Institute continually introduces and maintains programs to interest young people in accounting careers, promote their development and help the profession reflect the increasingly diverse public it serves.

Recruiting New CPAs

Corporate America and all professions are now focusing on the looming people challenge. The CPA profession is better positioned than most, however, having identified the impending supply shortage and crafted solutions in the 1990s. Filling the classroom has been an AICPA priority that is showing tremendous success.

Now entering its seventh year, **the Start Here. Go Places. student recruitment campaign, www.starthereregoplaces.com, continues to attract thousands of high school juniors and seniors and college students to accounting careers.** The campaign is bolstered by new content with customized messages targeting specific audiences. The redesigned Web site — featuring contests, online promotions, sweepstakes, postcards and more — reflected students' ever-changing environment and media habits and generated additional student interest. The campaign's award-winning magazine appears in both print and online editions, sharing stories to educate students about the opportunities and benefits of the profession. In recognition of the effort's successful business communications, Start Here. Go Places. received the prestigious Gold Quill Award from the International Association of Business Communicators.

Students and teachers alike are fans of the campaign. More than two-thirds of the campaign's high school members reported that the program increased their likelihood of studying business or accounting in college. Nearly one-third of early college campaign members are majoring in accounting and more than three-quarters of them have taken steps to pursue a career. The CPA's image among this age group is impressively positive. Students at all levels perceive CPAs as being an essential part of a business team, respected leaders and professionals who solve problems by means of intelligence, insight, communication skills and integrity.

The AICPA will remain in contact with the 55,400 leads generated this year, continuing to encourage accounting and CPA certification as career goals.



Since the program's inception in 2001, it has developed more than 267,000 leads, representing a diverse cross-section of America's student population.

In addition, two highly recognized AICPA scholarship programs target students, encouraging them to pursue careers in accounting. The John L. Carey Scholarship program provides financial assistance to liberal arts degree-holders pursuing graduate studies in accounting. Up to 10 competitive grants are awarded to students showing significant potential to become successful practitioners. The AICPA/Accountemps Scholarship program provides financial assistance to AICPA Student Affiliate Members pursuing studies in accounting, finance or information systems. These awards encourage undergraduate and graduate students to consider accounting and business careers.

Delivering the CPA Examination

The AICPA partners on the CPA Examination with state boards of accountancy, the National Association of State Boards of Accountancy and Prometric to provide what many view as one of the highest-quality testing programs in the world. With the delivery of more than 500,000 examinations to test centers since the 2004 launch, the computerized CPA exam also is well-regarded among candidates. **In 2006, candidate focus group participants said the computerized exam is the more desirable method of delivery over the prior pencil-and-paper exam.**

Candidate satisfaction with the testing experience remains high, and the number of examinees continues to grow: **More than 200,000 examination sections were completed during the past year.** In addition, to maintain the examination's professional relevance and validity, a practice analysis begun in 2006 and to be completed in 2008 will be used to revise the exam's content and skill specifications.

Ultimately, the changing generational expectations among CPA candidates require employers to support their efforts to pursue CPA certification and to remain in the profession long term.

Boosting Accounting Faculty

The AICPA continues to address the accounting faculty shortage currently facing business schools. **One initiative working to boost the numbers is the Association to Advance Collegiate Schools of Business (AACSB) Bridge Program.** The AICPA Foundation provided support to the inaugural AACSB International Bridge Program, held October 22-28, 2006, by providing scholarships for six CPAs to participate. The program offers an opportunity for highly experienced professionals who are passionate about becoming professionally qualified faculty members. The intensive seminar works to prepare senior business leaders for a successful transition into a career in business education. Two more seminars will be held in fall 2007 and spring 2008, with additional funding from the AICPA Foundation.

An innovative secondary school accounting course is being developed to attract more high-achieving students to the study of accounting. The AICPA Foundation has provided financial support to a pilot program in a few states with the expectation that it will ultimately spread to more states and universities, thereby enabling application to the College Entrance Examination Board for Advanced Placement recognition.

Advancing Diversity

Again this year, the AICPA has enhanced its efforts to improve minority representation in the profession. The goal is to foster an ethnic mix that better reflects the general population.

With the goal of directing new students into accounting, **the Minority Scholarship Program awarded 127 scholarships totaling \$406,000 to students at 89 different universities.**

The elite Accounting Scholars Leadership Workshop selected nearly 100 minority accounting students to participate in its program designed to cultivate 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.

AICPA Minority Doctoral Fellowships provide fellowships to accounting doctoral students. Fully 98% of students who completed their Ph.D. programs are actively teaching accounting at universities throughout the United States. For the sixth consecutive year, **the Institute provided financial support to enable minority faculty to attend American Accounting Association national conferences to present papers or moderate sessions.** The AICPA also continued to support the Center for Accounting Education at Howard University, both as a financial sponsor and as a resource provider. This innovative program focuses on African-American growth and retention in public accounting, with an

Balancing the Professional and Personal

Research on work/life needs for men and women and on women's professional advancement remains an important issue for the CPA profession, and to an even higher degree for the newest generation entering the workforce. This year, the AICPA continued its work in these areas and issued new and updated resources and programs to support CPAs and employers in promoting innovative retention policies and better employee work/life balance, www.aicpa.org/worklife.

To help attract and retain women professionals, **the Work/Life and Women's Initiatives Executive Committee (WLWIEC) issued the Guide to Building a Successful Off-Ramping Program**, providing employers with tools to keep employees — especially women who may leave for family reasons — engaged in the organization. The guide describes flexible work schedules, innovative communication options and a clear path for rejoining the firm full time. The WLWIEC also produced the *Employee Retention Guide*. This resource gives employers practical low- and moderate-cost options for improving office culture and keeping employees satisfied.

To promote flexible work arrangements, **the AICPA has continued to offer a robust**

emphasis on completion of the CPA Examination. In addition, the AICPA supported the Association of Latino Professionals in Finance and Accounting by sponsoring its annual conference and providing two student scholarships. Similarly, the Institute sponsored the National Association of Black Accountants' annual conference and provided a student scholarship.

Encouraging Young CPAs

The Young CPA Network is an innovative online community serving CPA professionals 35 and younger with a variety of useful resources. Its Web site, www.aicpa.org/YoungCPANetwork, features information on a host of issues relevant to those starting out in the profession and looking for guidance along their pathway to success. This year, **the Young CPA Network added an "Ask a CPA" feature that offers career mentoring for beginning members.** The network's monthly e-news publication, *The Edge*, continues to offer advice and insight on professional issues, career development, CPE and work/life balance.

online toolkit to aid professional service firms and corporations in finding solutions to practical problems. FlexWise™, www.cpa2biz.com/flexwise, developed by Rupert and Company, is a comprehensive set of online flexibility tools, including policy and procedure guidelines, orientation training, and best practice training in telecommuting, job sharing and compressed schedules. Through a partnership with Robert Half, **the AICPA continued its efforts to support women CPAs by co-sponsoring the Women to Watch program**, honoring the profession's women leaders. To date, three state CPA societies — Illinois, Missouri and New Mexico — participate in the program, and the Institute continues to ramp up efforts to increase that number.



More than 70,000 members subscribe to The Edge, an electronic newsletter offered through the Young CPA Network.



Standing for the Public Good



One of the hallmarks of the CPA profession is its commitment to public service. Media relations efforts, a multi-faceted financial literacy campaign and leadership on issues important to the public – like Social Security – are some of the ways in which the AICPA supports the public good.

Cultivating the Media

The AICPA's ongoing media relations efforts keep the national and business press informed about the outstanding work of CPAs and the profession's perspectives on a wide range of issues. The press also continues to turn to the Institute as an authoritative source of information about issues important to the public. The organization's leadership and volunteers are quoted in hundreds of publications throughout the year, including national and regional publications, radio and television programs, business and accounting trades, and Web sites. *USA Today*, *Forbes*, Reuters, *Money* magazine, the *Wall Street Journal*, Dow Jones, "Good Morning America," Associated Press and the "Nightly Business Report" are just a few of the media outlets in which the AICPA appears. Whether announcing the newest financial literacy initiative or discussing the latest developments in recruitment and diversity in the profession, the AICPA remains committed to informing the public about the profession's many contributions through the media.

Leading a Financial Literacy Revolution

In May 2004, the CPA profession launched a unified financial literacy initiative, 360 Degrees of Financial Literacy, to help educate Americans about managing their personal finances. The nationwide effort brings together the AICPA, the state CPA societies and individual CPAs to address financial illiteracy and to make clear that financial understanding is a lifelong process – from children saving their allowances to adults planning for secure retirements.

The AICPA's award-winning financial literacy Web site, www.360financialliteracy.org, continues to be the centerpiece of the campaign, where consumers can find extensive free resources to help them make sound financial decisions. The site receives an average of 70,000 visitors each month and is highly ranked on all Internet search engines. The site is free from all advertising, sales, promotions and branding — a feature that brought recognition in a *Newsweek* article citing the site as impartial and solid.

The 360 effort receives 750 million media impressions annually. This coverage includes television, radio, print and Web media and largely focuses on opportunities to bring practical money management solutions to a wider American audience.

Underscoring the campaign's importance is a Harris Interactive poll conducted for the AICPA that revealed some startling statistics: 41% of Americans feel they cannot afford to buy a home, 29% are not able to save any of their money and 16% require a part-time or second job to meet current expenses. Lack of adequate retirement savings and overreliance on possibly non-existent pensions paints an even bleaker picture. **The AICPA sponsored a Webcast in May 2007 to address the apparent loss of the American dream.**

Congress recognizes the financial literacy problem as well. The AICPA endorsed a bi-partisan congressional resolution supporting April as "Financial Literacy Month." On Financial Literacy Day, April 26, 2007, Congress held a special event to raise awareness of the need for financial education. The AICPA was selected as one of the six sponsors and provided materials promoting 360 Degrees of Financial Literacy. Legislators, regulators, the media and others attended the event, giving extensive visibility to the CPA profession's efforts.

In October 2006, **the AICPA extended the reach of the 360 Degrees of Financial Literacy initiative by partnering with the Ad Council to implement Feed the Pig™ (FTP), a national public service announcement campaign.** The campaign, which has won 11 awards, sends a wake-up call that Americans ages 25-34 need to start making smart financial decisions or they will find their long-term financial security at risk. The campaign delivers its key savings message through a variety of media, including television,

radio, print, outdoor and Web advertisements, as well as through demographic-appropriate media, such as text messaging and social networking Web sites.

The Feed the Pig campaign shows tremendous momentum. On November 14, 2006, and April 6, 2007, **Feed the Pig banners were featured on the home page of MSNBC.com.** These placements resulted in a 900% increase in traffic to the Feed the Pig Web site, www.feedthepig.org. Web banners appeared on iVillage, *The New York Times*, CNET, *National Geographic* and CondeNet as well. Exposure also has been significant during regional television broadcasts on programs such as "Good Morning America," "TODAY," "Live with Regis and Kelly," "Ellen," "Dr. Phil," "Oprah," "Grey's Anatomy," "24," "Late Show with David Letterman," "Tonight Show with Jay Leno," "Dateline NBC" and "Saturday Night Live." Moreover, about 1,400 individuals each day visit the Feed the Pig Web site, and more than 340 million media impressions have been generated since October 2006.



Each month of the 2008 Feed the Pig calendar provides useful financial tips and information for smart money management.

In March 2007, a new, free **Feed the Pig podcast series** launched. Each episode features a career builder talking about his or her relationship with money and savings, and a CPA offering helpful financial tips. Topics covered include buying a first home, managing student loans and curbing compulsive spending.

Along with state CPA societies, **the AICPA promoted Feed the Pig to younger children throughout communities this past summer.** The campaign was selected as one of seven Ad Council campaigns to participate in Radio Disney's Move It! summer mall tour, which was held in 42 malls in 29 states attracting more than 200,000 families nationwide.

Showing the Faces of Individual CPAs

Launched in 2003, **the CPA Ambassador Program, www.cpaambassador.org, now boasts more than 1,200 Ambassadors in virtually all the states.** Each CPA Ambassador puts a personal face to the profession, reinforcing the public's sense of trust in and respect for CPAs. New to the program this year is a monthly e-newsletter, *The Ambassador*, which addresses myriad issues ranging from how to speak with students to educating reporters on accounting basics. New materials for Ambassadors have been added as well, covering business and industry, work/life balance issues and the Feed the Pig financial literacy campaign.

Extending a Hand

Members in need of assistance in marketing their tax practices and services gained a new resource this year. **A brochure, speech and PowerPoint presentation for use during the 2006 tax filing season were provided through the CPA Marketing Tool Kit, www.aicpa.org/cpamarketing.** *Tax Saving Tips for 2006* also was used to help clients prepare for their tax returns.

Like taxes, Social Security affects many Americans and reflects a critical public concern. **With its vast amount of tax and financial expertise, the profession stepped up to the plate to help develop solutions to the looming Social Security problem.** Early in 2005, the AICPA released its report, *Understanding Social Security Reform: The Issues and Alternatives*, in conjunction with White House and congressional discussions regarding reform of the government subsidy. In 2007, a re-release of the report was approved in anticipation of renewed Social Security reform interest in the new Congress.



Benjamin Bankes is the newest mascot among a group of illustrious Ad Council icons, including McGruff the Crime Dog, Vince and Larry: the Crash Test Dummies and Smokey Bear.

Board of Directors 2006-2007



Jimmy L. Williamson, CPA, Chairman
Randy G. Fletchall, CPA, Vice Chair
Barry C. Melancon, CPA, President and CEO
Leslie A. Murphy, CPA, Immediate Past Chair

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Stuart R. Benton, CPA
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Hubert J. Glover, CPA
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William A. McKenna Jr.*

For Two Years (2006-2008)

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Lisa C. Germano, CPA
Paul V. Stahlin, CPA
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* Public Members

Financials

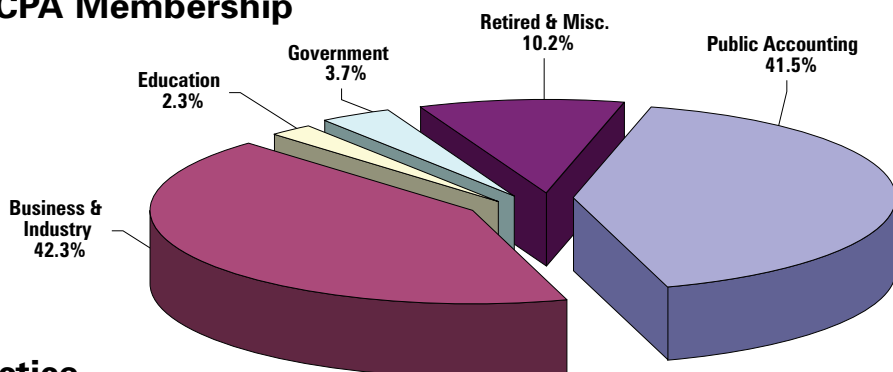


AICPA Annual Report 2006–2007

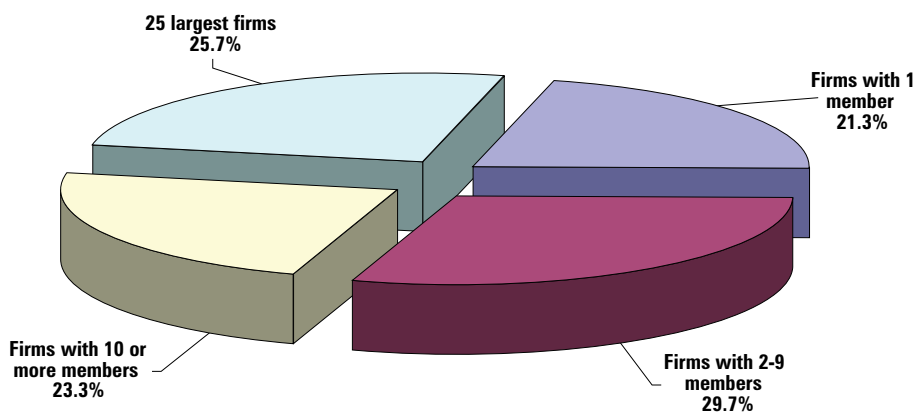
Sources and Occupations of AICPA Membership

	2001	2002	2003	2004	2005	2006	2007
Total AICPA Membership (excluding student and other affiliates)	336,081	337,867	335,111	334,635	327,135	330,525	334,372
Public Accounting	38.9%	38.8%	38.4%	39.0%	39.2%	40.3%	41.5%
Business & Industry	46.6%	47.4%	47.4%	41.6%	42.9%	42.8%	42.3%
Education	2.3%	2.3%	2.4%	2.3%	2.4%	2.4%	2.3%
Government	4.1%	4.0%	4.1%	3.9%	3.9%	3.9%	3.7%
Retired & Miscellaneous	8.1%	7.5%	7.7%	13.2%	11.6%	10.6%	10.2%
Membership in Public Practice	130,870	130,995	128,730	130,343	128,292	133,379	138,830
Firms with 1 member	21.6%	21.3%	21.4%	22.6%	23.0%	22.2%	21.3%
Firms with 2-9 members	34.1%	33.9%	34.1%	29.9%	31.6%	31.0%	29.7%
Firms with 10 or more members, except the 25 largest firms	22.8%	24.0%	24.5%	26.0%	24.7%	24.4%	23.3%
25 largest firms	21.5%	20.8%	20.0%	21.5%	20.7%	22.4%	25.7%

2007 Total AICPA Membership



2007 Membership in Public Practice



Management's Discussion and Analysis

As the premier national professional association for Certified Public Accountants, the AICPA's mission is to provide members with the resources, information and leadership that enable them to provide valuable services in the highest professional manner to benefit the public. A fundamental principle of our operations is to maintain fiscal responsibility while pursuing these objectives.

This year we continued our expansion of how we protect the public interest and communicated such to our membership. We broadened the reach of our *360 Degrees of Financial Literacy* initiative by partnering with the Ad Council to launch the *Feed the Pig* national public service announcement campaign in October 2006. Working with legislators, we advocated for reforms to encourage simplicity, compliance and fairness in our nation's tax system, and we were able to have CPAs exempted from the annual privacy notification requirement of the Gramm-Leach-Bliley Act.

We also continued to advance our commitment to professional responsibility in the audit process with the launch of the Center for Audit Quality ("CAQ") in January 2007. To guide enhancements in the financial reporting sector, the Institute supported the launch of XBRL-US, Inc. as a newly-formed not-for-profit organization to champion the development and adoption of eXtensible Business Reporting Language ("XBRL") and formed the Private Company Financial Reporting Committee to concentrate on recognizing the need for different accounting standards for private companies.

A detailed account of our broad range of activities is provided in this Annual Report, and it is important to place this *Management's Discussion and Analysis* in the context of the achievements and challenges experienced in Fiscal 2007.

REPORT ON OPERATIONS

Relocation to North Carolina

In October 2005, the AICPA's Board of Directors and Council approved a plan by management to relocate a substantial portion of its Jersey City, New Jersey and part of its New York City operations to Durham, North Carolina. The relocation ("Relocation") was motivated by management's commitment to reduce future operating expenses and to provide our members with the best products and services in a cost-effective manner. The commencement of the Relocation, which was financed by a \$28 million term loan, began in August 2006 and was completed by July 2007.

The Relocation impacted approximately 400 staff positions, with 50 key staff members relocating to Durham. We successfully recruited talented individuals in a lower cost environment and streamlined many of our processes. As a result, we have made improvements in how we do business and how we interact with our members. Through July 31, 2007, total Relocation expenses were \$41.9 million, significantly less than the Council-approved budget of \$48.6 million due to an unused project contingency of \$6 million and other cost savings.

Beginning in Fiscal 2008, we anticipate that we will permanently reduce operating expenses by approximately \$11 million per year largely driven by lower labor costs and lower real estate and other operating costs. In accordance with the Relocation plan, seventy-five percent of this annual savings will be used to replenish the fund balance and repay the AICPA's long-term debt until the debt

is extinguished. As such, the AICPA's Fiscal 2008 budget reflects an excess of operating revenue over expenses of \$8.25 million.

Management's original projections anticipated that the Relocation would result in a fund balance deficit. However, the Institute's positive operating results, combined with net gains on marketable securities over the last two years and lower than expected Relocation expenses, resulted in a positive fund balance that will continue to be replenished over the next several years.

We continue to aggressively market the subleasing of the Jersey City space, with many marketing campaigns underway. In accordance with FASB 146, *Accounting for Costs Associated with Exit or Disposal Activities*, the Institute has accounted for future sublease rental income at current market rates.

Employee Benefit Plans

Management reviews the design of its defined benefit pension and postretirement plans ("Plans") on a regular basis to assess opportunities to manage the exposure that market fluctuations may create to our financial statements. During Fiscal 2007, management recommended a pension plan amendment ("Amendment"), which was approved by the Board of Directors that provides no further benefit accruals after April 30, 2017. The Amendment resulted in a favorable impact to pension expense.

In addition, the Institute adopted the provisions of FASB 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("FAS 158") which became effective for fiscal years ending after June 15, 2007. FAS 158 requires an employer that sponsors a defined benefit pension or postretirement plan to report the funded status of each plan in its statement of financial position and to include enhanced disclosures about each plan in its notes to the financial statements.

In addition, FAS 158 requires the measurement of plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position for fiscal years ending after December 15, 2008. The Institute early adopted the measurement date provision for the year ended July 31, 2007. The incremental effect of applying FAS 158 resulted in \$638,000 of additional expense.

As a result of the Relocation and the Amendment, a curtailment gain of the Plans was recognized of approximately \$2.4 million in Fiscal 2007.

Computerized CPA Examination

The computerized CPA Examination ("Exam") is delivered through a tri-party agreement ("Agreement") between the National Association of State Boards of Accountancy, Prometric and the AICPA. The AICPA accounts for the Exam on a break-even basis over the term of the Agreement. The AICPA had approximately \$44.3 million in net deferred costs associated with the Exam reflected in its Combined Statements of Financial Position at July 31, 2006.

Fiscal 2007 marked the first year where the Exam's revenue exceeded expenses, as the AICPA recognized revenue of \$11.6 million and expenses of \$11.2 million, which was one year earlier than projected. Accordingly, costs equal to the revenue recognized in the current year have been expensed, with the excess of revenue over expenses of approximately \$400,000 recognized as a reduction of

deferred costs. As such, at July 31, 2007, the balance of approximately \$44.0 million of net deferred costs is reflected in the Combined Statements of Financial Position.

Three main factors affect the recoverability of deferred costs associated with the Exam and are tested annually for impairment – (1) future candidate volume; (2) future price increases; and (3) cost management. Given these factors and the financial performance in Fiscal 2007, the projections continue to reflect the AICPA's belief that the deferred costs associated with the Exam will be fully recovered.

In Fiscal 2007, the Exam's deferred costs were lower than our budgeted expectations by approximately \$2.0 million. This positive budget variance was attributable to higher candidate volume and lower expenses. As noted in prior years, the AICPA continues to review all opportunities to reduce costs, where possible, without negatively impacting the Exam's technology platform or the services provided to the candidates.

The candidate cost to take the Exam is set by each of the respective licensing jurisdictions and currently ranges between \$625 and \$1,125, assuming a candidate takes all four parts. The AICPA currently earns \$65 per section or \$260 for a candidate taking all four parts of the Exam regardless of the candidate charge set by the licensing jurisdiction. Pursuant to the rights granted in the Agreement, for candidates taking the Exam after January 1, 2008, a price increase has been announced, which will increase the per test section fee from \$65 to \$80. Research continues to show that the cost of the Exam 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, 2007, the AICPA had total outstanding debt related to the Exam of \$32.1 million which consisted of a \$25 million, 7-year term loan and a \$7.1 million interest-free loan from Prometric.

CPA2Biz

The year was marked by the successful launch of CPA2Biz's ("C2B") next generation e-commerce site. The new site is built on a powerful new web platform incorporating the latest technology from best-in-class partners. The launch of the next generation coincides with C2B being named to *Internet Retailer's Guide to the Top 500 Retail Web Sites* for the second consecutive year.

For Fiscal Year 2007, C2B posted revenue of \$17.1 million; a majority of this revenue is eliminated in combination. In addition, C2B generated net income of approximately \$2.3 million, its third straight year of profitability.

FINANCIAL RESULTS

These combined financial statements include the accounts of the AICPA, its subsidiaries C2B and NorthStar Conferences, LLC ("NorthStar"), and the Related Organizations. The AICPA and NorthStar are not responsible for any liabilities or other obligations of C2B or the Related Organizations included in the combined financial statements. The following are highlights from our combined financial statements as of and for the year ended July 31, 2007:

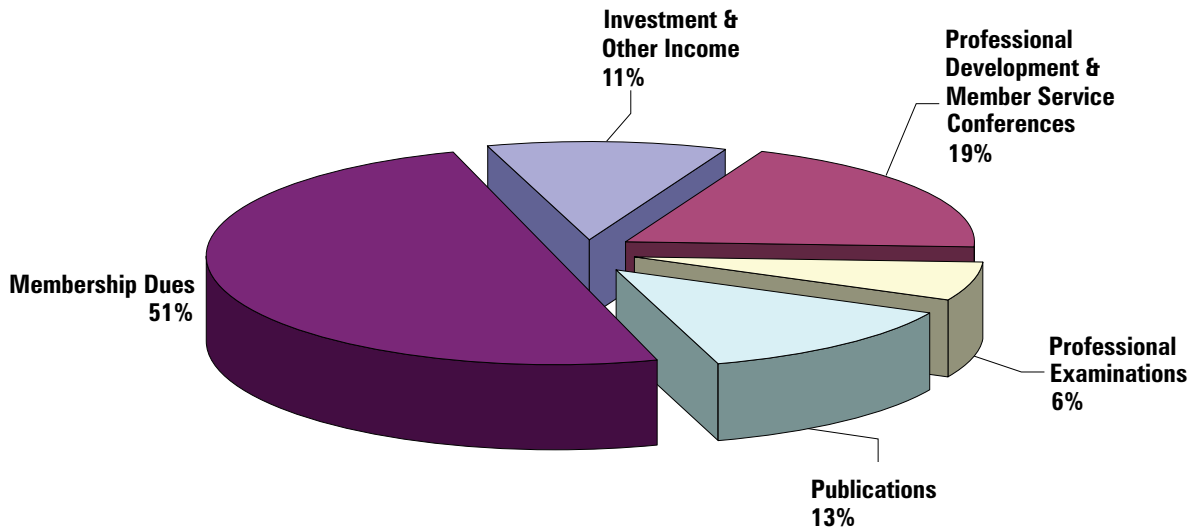
- Total assets on a combined basis were \$227.4 million in 2007 compared to \$217.0 million in 2006. The increase primarily stems from higher furniture, technology and leasehold improvements associated with the acquisition of assets made during the Relocation, and higher cash and cash equivalents, offset by lower marketable securities, due to timing differences. This increase is also offset by the decline in deferred costs and prepaid expenses associated with the Relocation.
- Total liabilities on a combined basis were \$178.9 million in 2007 compared to \$159.8 million in 2006. The increase is largely attributable to additional long-term debt obtained to finance the Relocation and accrued Relocation expenses, including the lease loss incurred on the Institute's Jersey City location. These increases are partially offset by a decline in advance dues due to a slight change in the timing of when our Fiscal 2008 dues bills were mailed and lower deferred employee benefits costs due to the aforementioned defined benefit plan changes. As of September 15, 2007, dues collections were in line with historical collection trends and the budget for Fiscal 2008.
- Operating revenue on a combined basis was \$193.7 million in 2007 compared to \$181.3 million in 2006. The revenue increase is primarily attributable to higher dues from the launch of the CAQ in January 2007 and higher Exam revenue due to higher candidate volume and higher per section testing fees. The CAQ is a firm-based membership and assesses dues based on the number of CPAs and SEC issuers of each member firm.
- Operating expenses on a combined basis were \$213.0 million in 2007 compared to \$174.8 million in 2006. Operating expenses increased as a result of the Relocation costs, expenses associated with the launch of the CAQ, higher Exam expenses due to higher testing section volumes, higher technology costs associated with the launch of the next generation C2B e-commerce site and other Institute-related technology initiatives, and higher general management costs as a result of higher professional and commercial service expenses.
- *Cash provided by (used in) operating activities* was (\$21.9) million in 2007 compared to \$20.4 million in 2006. This change is a result of a decline in net assets in Fiscal 2007, as well as lower advance dues due to a slight change in the timing of our Fiscal 2008 dues mailing as noted above, primarily offset by higher accrued relocation expenses. *Cash provided by (used in) investing activities* was \$10.5 million in 2007 compared to (\$18.6) million in 2006. This increase is primarily due to higher net proceeds from the sale and purchase of marketable securities and lower purchases of amortizable assets, offset by higher purchases of furniture and technology associated with the Relocation and the development of the next generation C2B e-commerce site. *Cash provided by (used in) financing activities* was \$24.1 million in 2007 compared to (\$2.3) million in 2006. This increase is due to proceeds of long-term debt used to finance the Relocation offset by repayments of other long-term debt. *Noncash operating and investing activities* for Fiscal 2007 include a \$5.5 million noncash item for deferred rent tenant allowance attributable to the Relocation.

CONCLUSION

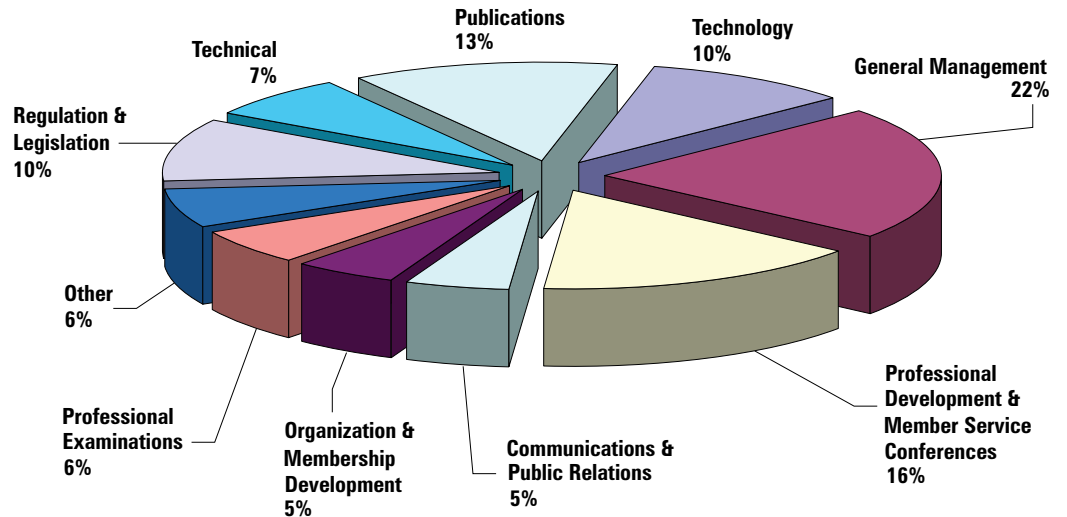
The AICPA will continue its focus on serving the public interest and supporting our members in achieving the highest ethical and technical standards. Expanding on the initiatives outlined above, we will build upon the past year’s progress in enhancing the profession’s image, raising the bar on audit quality, addressing private company financial reporting, and serving the public interest while remaining committed to our fiscal responsibility.

Although the AICPA increased its overall long-term debt position in Fiscal 2007 to finance the Relocation, management believes that the AICPA has sufficient liquidity and working capital to meet its needs in the upcoming fiscal year and is reflected by the Fiscal 2008 budget of \$8.25 million in excess of operating revenue over expenses.

2007 Operating Revenue by Activity



2007 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 governing 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 governing 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.

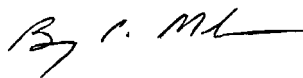
Established policies are communicated throughout the Institute and enhanced through the careful selection, training and development of its staff. Internal auditors monitor the operation of internal control and report findings and recommendations to management and the Board of Directors. Corrective actions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

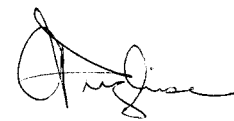
The Institute has assessed its internal control over financial reporting in relation to criteria described in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Institute believes that, as of August 15, 2007, 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 August 15, 2007, 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 August 15, 2007, is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.



Roseland, New Jersey
September 17, 2007

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, 2007 and 2006, 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, 2007 and 2006, 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.

As discussed in Note 2 to the financial statements, in 2007, the American Institute of Certified Public Accountants and Related Organizations adopted the provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.



Roseland, New Jersey
September 17, 2007

Financial Statements

July 31, 2007 and 2006

AMERICAN INSTITUTE OF CERTIFIED PUBLIC
ACCOUNTANTS AND RELATED ORGANIZATIONS

COMBINED STATEMENTS OF FINANCIAL POSITION
JULY 31,

	<u>2007</u>	<u>2006</u>
		(\$000)
ASSETS:		
Cash and cash equivalents	\$ 20,379	\$ 7,656
Marketable securities	103,596	111,326
Accounts and notes receivable (less an allowance for doubtful accounts: 2007, \$2,180; 2006, \$3,095)	12,245	11,292
Deferred costs and prepaid expenses	56,553	59,827
Goodwill and other intangible assets	14,336	14,995
Furniture, technology and leasehold improvements, net	<u>20,298</u>	<u>11,939</u>
Totals	\$ <u>227,407</u>	\$ <u>217,035</u>
LIABILITIES:		
Accounts payable and other liabilities	\$ 29,166	\$ 27,799
Accrued relocation expenses (Note 13)	20,100	5,600
Advance dues	29,812	42,277
Unearned revenue	10,398	12,631
Long-term debt	61,223	37,091
Deferred rent	14,064	16,081
Deferred employee benefits	<u>14,110</u>	<u>18,312</u>
Total liabilities	<u>178,873</u>	<u>159,791</u>
PREFERRED STOCK AND NET ASSETS:		
Preferred stock of C2B	<u>87,354</u>	<u>87,354</u>
Net assets:		
Unrestricted:		
AICPA and related organizations	40,508	51,541
C2B	<u>(80,867)</u>	<u>(83,211)</u>
Total unrestricted	<u>(40,359)</u>	<u>(31,670)</u>
Temporarily restricted	891	912
Permanently restricted	<u>648</u>	<u>648</u>
Total net assets	<u>(38,820)</u>	<u>(30,110)</u>
Total preferred stock and net assets	<u>48,534</u>	<u>57,244</u>
Totals	\$ <u>227,407</u>	\$ <u>217,035</u>

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,

	<u>2007</u>	<u>2006</u>
		(\$000)
CHANGES IN NET ASSETS:		
Operating revenue:		
Dues	\$ 97,059	\$ 87,696
Publications	25,093	26,765
Professional development and member service conferences	37,709	37,469
Investment and sundry income	20,546	19,054
Professional examinations	12,201	9,039
Contributions	<u>1,057</u>	<u>1,268</u>
Total operating revenue	<u>193,665</u>	<u>181,291</u>
Operating expenses:		
Program services:		
Publications produced for sale	25,524	27,602
Professional development and member service conferences	33,435	34,978
Member services:		
Regulation and legislation	22,244	14,231
Technical	14,539	17,339
Publications	1,825	2,013
Other	7,515	8,027
Professional examinations	12,485	9,195
Communications and public relations	10,627	9,580
Support and scholarships	4,796	3,732
Assistance programs	1,065	856
Supporting activities:		
General management	15,181	9,562
Organization and membership development	10,606	12,749
Technology	21,125	14,992
Relocation (Note 13)	<u>32,000</u>	<u>9,900</u>
Total operating expenses	<u>212,967</u>	<u>174,756</u>
Excess (deficiency) of operating revenue over expenses	<u>(19,302)</u>	<u>6,535</u>
Gains (losses) on marketable securities:		
Realized	8,983	7,128
Unrealized	<u>2,103</u>	<u>(2,547)</u>
Totals	<u>11,086</u>	<u>4,581</u>
Change in net assets before minority interest and effect of adoption of recognition and measurement date provisions of SFAS 158	<u>(8,216)</u>	11,116
Minority interest	<u>144</u>	168
Change in net assets before effect of adoption of recognition and measurement date provisions of SFAS 158	<u>(8,072)</u>	11,284
Effect of adoption of recognition and measurement date provisions of SFAS 158 (Note 8)	<u>(638)</u>	
Change in net assets	<u>(8,710)</u>	11,284
Net assets, beginning of year	<u>(30,110)</u>	<u>(41,394)</u>
Net assets, end of year	<u>\$ (38,820)</u>	<u>\$ (30,110)</u>

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

		(\$000)	
	<u>AICPA and Related Organizations</u>	<u>C2B</u>	<u>TOTAL</u>
2007:			
Preferred stock		\$ 87,354	\$ 87,354
Net assets:			
Unrestricted	\$ 40,508	(80,867)	(40,359)
Temporarily restricted	891		891
Permanently restricted	648		648
Total net assets	<u>42,047</u>	<u>(80,867)</u>	<u>(38,820)</u>
Totals	<u>\$ 42,047</u>	<u>\$ 6,487</u>	<u>\$ 48,534</u>
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	<u>53,101</u>	<u>(83,211)</u>	<u>(30,110)</u>
Totals	<u>\$ 53,101</u>	<u>\$ 4,143</u>	<u>\$ 57,244</u>

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

	<u>2007</u>	<u>2006</u>
		(\$000)
INCREASE (DECREASE) IN CASH:		
Operating activities:		
Cash received from members and customers	\$ 173,895	\$ 182,671
Interest and dividends received	4,380	3,641
Cash paid to suppliers, employees and others	(196,186)	(163,015)
Interest paid	(2,646)	(1,898)
Income taxes paid	(1,357)	(925)
Net cash provided by (used in) operating activities	<u>(21,914)</u>	<u>20,474</u>
Investing activities:		
Payments for purchase of amortizable assets	(536)	(7,791)
Payments for purchase of furniture and technology	(7,776)	(4,537)
Payments for purchase of marketable securities	(56,266)	(96,026)
Proceeds from sale of marketable securities	75,083	89,719
Net cash provided by (used in) investing activities	<u>10,505</u>	<u>(18,635)</u>
Financing activities:		
Proceeds of long-term debt	28,000	25,000
Repayment of long-term debt	(3,868)	(27,289)
Net cash provided by (used in) financing activities	<u>24,132</u>	<u>(2,289)</u>
Net increase (decrease) in cash and cash equivalents	12,723	(450)
Cash and cash equivalents, beginning of year	7,656	8,106
Cash and cash equivalents, end of year	<u>\$ 20,379</u>	<u>\$ 7,656</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Change in net assets	\$ (8,710)	\$ 11,284
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization:		
Furniture, technology and leasehold improvements	5,381	4,034
Impairment of goodwill		881
Internal computer systems	5,086	4,667
Loss on disposal of furniture, technology, leasehold improvements and software	49	256
Gain on sale of marketable securities	(8,983)	(7,128)
Amortization of unearned revenue	(532)	(536)
Unrealized (gain) loss on marketable securities	(2,103)	2,547
Minority interest	(144)	(168)
Provision for:		
Losses on accounts and notes receivable	915	769
Deferred rent	(7,465)	(118)
Deferred employee benefits	(1,149)	(3,816)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(1,867)	(3,529)
Deferred costs and prepaid expenses	(475)	(89)
Accounts payable and other liabilities	802	(2,021)
Accrued relocation expenses	14,500	5,600
Advance dues	(12,465)	6,378
Unearned revenue	(1,701)	1,498
Deferred employee benefits	(3,053)	(35)
Total adjustments	<u>(13,204)</u>	<u>9,190</u>
Net cash provided by (used in) operating activities	<u>\$ (21,914)</u>	<u>\$ 20,474</u>
Supplemental disclosures of noncash operating and investing activities:		
Furniture, technology, leasehold improvements and software	<u>\$ 565</u>	<u>\$ 559</u>
Deferred rent tenant allowance	<u>\$ 5,448</u>	<u>\$ 123</u>

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

Notes to Combined Financial Statements

July 31, 2007 and 2006

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 9). 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 11). The Benevolent Fund provides temporary financial assistance to 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., composed of substantially all of the individual state societies of CPAs located throughout the United States, 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. The AICPA accounts for its 50% investment in SSLLC on the equity method although the investment remains at zero as of July 31, 2007. SSLLC maintains a limited amount of activity, principally group buying power on certain products and services for the benefit of the AICPA and participating state societies. SSLLC's Board of Directors continues to explore additional opportunities to fulfill its mission.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation:

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.

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.

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.

The Institute records related party transactions in accordance with Statement of Financial Accounting Standards No. 57, *Related Party Disclosures*.

Certain accounts in the 2006 financial statements have been reclassified to conform with the current year's presentation.

Valuation of assets and liabilities:

The Institute considers investments with an original maturity of three months or less when purchased to be cash equivalents. As of July 31, 2007 and 2006, the Institute's cash equivalents consisted primarily of money market funds.

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.

The carrying amounts of cash and cash equivalents, 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.

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.

Inventories consist of paper and material stock, publications in process and printed publications and course material and are stated at the lower of cost or market. A moving average method is used for determining inventory cost. Inventories are reflected as a component of deferred costs and prepaid expenses in the accompanying statement of financial position.

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, 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 non-amortization 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.

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.

Concentrations of credit risk:

Financial instruments, which potentially subject the Institute to concentrations of credit risk, include cash and cash equivalents, 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 cash equivalents 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 and the interest rate collar agreement 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, 2007, the Institute has no significant concentrations of credit risk.

Derivative financial instruments:

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 No. 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 recognition:

Revenue from dues is recorded in the applicable membership period.

Revenue from publications, 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.

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.

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).

Promotions and advertising:

Costs of promotions and advertising are expensed as incurred. Total promotion and advertising expenses were \$8,696,000 and \$9,226,000 for the years ended July 31, 2007 and 2006.

Accounting for web site and software development costs:

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 the 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.

Exit and disposal activities:

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.

Income taxes:

The AICPA and ARA are organized as 501(c)(6) not-for-profit organizations under the Internal Revenue Code (Code). Certain income of the AICPA, however, is subject to taxation. The Benevolent Fund and Foundation are organized as 501(c)(3) not-for-profit organizations under the Code. 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.

Stock-based compensation:

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).

Using the modified prospective method, C2B applies the fair value method to both (a) awards granted, modified or settled in that year and under the fair value method; and (b) the unvested portion of previously issued awards and unvested variable awards. Effective July 1, 2006, C2B adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R).

Change in accounting policy:

The Institute adopted the provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS No. 158), which became effective for fiscal years ending after June 15, 2007. SFAS No. 158 requires an employer that sponsors a defined benefit pension or postretirement plan to report the funded status of each plan in its statement of financial position and to include enhanced disclosures about each plan in its notes to the financial statements.

In addition, SFAS No. 158 requires the measurement of plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position for fiscal years ending after December 15, 2008. The Institute early adopted the measurement date provision for the year ended July 31, 2007.

3. MARKETABLE SECURITIES

Marketable securities consist of:

	<u>2007</u>	(\$000)	<u>2006</u>
Bonds and notes	\$ 33,084		\$ 50,515
Equities	70,512		60,811
Total fair value	103,596		111,326
Unrealized gains	7,476		5,465
Total cost	\$ 96,120		\$ 105,861

Investment income consists of:

	<u>2007</u>	(\$000)	<u>2006</u>
Dividends and interest	\$ 3,853		\$ 3,626
Realized gains	8,983		7,128
Unrealized gains (losses)	2,103		(2,547)
	\$ 14,939		\$ 8,207

4. FURNITURE, TECHNOLOGY AND LEASEHOLD IMPROVEMENTS

Furniture, technology and leasehold improvements consist of:

	<u>2007</u>	(\$000)	<u>2006</u>
Furniture	\$ 6,171		\$ 9,303
Technology	16,595		35,251
Leasehold improvements	11,434		15,327
	34,200		59,881
Less accumulated depreciation and amortization	13,902		47,942
	\$ 20,298		\$ 11,939

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets are as follows:

	<u>2007</u>	(\$000)	<u>2006</u>
Goodwill	\$ 12,553		\$ 12,553
Other intangible assets:			
Trade name	1,783		1,783
Contracts and technology	5,645		5,645
Less accumulated amortization	5,645		4,986
Contracts and technology, net	-		659
	1,783		2,442
	\$ 14,336		\$ 14,995

Amortization expense on intangible assets with definite lives amounted to approximately \$659,000 and \$1,129,000 for the years ended July 31, 2007 and 2006.

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. Goodwill was not impaired for the year ended July 31, 2007. 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.

6. LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2007</u>	(\$000)	<u>2006</u>
AICPA (A)			\$ 1,200
AICPA (B)	\$ 7,143		8,571
AICPA (C)	25,000		25,000
AICPA (D)	28,000		
C2B (E)	<u>1,080</u>		<u>2,320</u>
	<u>\$ 61,223</u>		<u>\$ 37,091</u>

(A) The note bears interest at 5%, payable monthly, through February 15, 2013 when the entire principal balance is due. The AICPA paid this note off in full on July 31, 2007.

(B) Noninterest bearing note payable to Prometric, Inc. ("Prometric" - see Note 7).

(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 100 basis points.

(D) Term note payable in quarterly installments commencing on January 23, 2008 in a payment of \$2,750,000 and subsequent quarterly payments of \$1,375,000 with a final payment of \$500,000 due at maturity on October 23, 2012. Proceeds of the note were used to finance the relocation of certain operations to Durham, North Carolina (see Note 13). Interest is payable at LIBOR plus 55 basis points.

(E) 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 \$90,000 and \$168,000 during the years ended July 31, 2007 and 2006 through the issuance of 33,803 and 39,440 shares of common stock of C2B. The AICPA has no obligation under the note.

The term notes of \$25,000,000 and \$28,000,000, respectively, are collateralized by certain marketable securities, which may not fall below 115% of the sum of the outstanding principal balances of the term notes 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, 2007, the collateral has a market value of \$93,800,000. The guarantor of the term notes is NorthStar.

Interest expense for the years ended July 31, 2007 and 2006 was \$2,923,000 and \$1,230,000.

Based on borrowing rates currently available, the fair value of long-term debt at July 31, 2007 and 2006 approximates \$59,000,000 and \$35,000,000.

Principal amounts due under the above obligations in each of the five years subsequent to July 31, 2007 and thereafter are as follows:

YEAR ENDING JULY 31,

	(\$000)
2008	\$ 8,009
2009	6,928
2010	15,262
2011	15,262
2012	15,262
Thereafter	<u>500</u>
	<u>\$ 61,223</u>

The Institute entered into an interest rate swap contract, which expires on July 30, 2012, 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, 2007 and 2006, the fair value of the interest rate swap was an asset of approximately \$267,000 and \$562,000. In 2007, the Institute entered into an interest rate collar agreement, which expires on October 23, 2012, with a financial institution to limit the variability of interest expense on the floating rate borrowings under the \$28,000,000 term note. The collar has a floor of 5.40% and a cap of 6.55%. At July 31, 2007, the fair value of the interest rate collar was a liability of approximately \$172,000. The net value of the swap and collar has been reflected as a component of deferred costs and prepaid expenses in the statement of financial position, with the corresponding adjustment to interest expense, reflected as a component of general management expenses, in the statement of activities.

7. 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, 2007, approximately \$28,615,000 of revenue and \$72,589,000 of costs have been incurred. During the years ended July 31, 2007 and 2006, the AICPA recognized revenue of approximately \$11,561,000 and \$8,291,000. Accordingly, costs equal to the revenue recognized have been expensed. At July 31, 2007 and 2006, the balances of \$43,974,000 and \$44,344,000 are included in deferred costs and prepaid expenses 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, 2007, approximately \$1,429,000 was paid to reduce the line of credit.

The candidate volume is estimated approximately two years in advance. Prometric uses a tier based-volume pricing schedule to determine its fee to provide the Examination. If the estimated volume is greater than the actual volume, the AICPA is required to pay Prometric an additional fee. If the actual volume is greater than the estimated volume, Prometric is required to reimburse the AICPA. Any net amounts paid or received by the AICPA affect future fee determinations under the "break even" provisions of the agreement. For the year ended July 31, 2007, the AICPA received \$1,842,000 from Prometric. For the year ended July 31, 2006, the AICPA accrued \$861,000 payable to Prometric, which was paid in August 2006.

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.

Minimum rental commitments on noncancelable real estate and equipment leases in effect as of July 31, 2007, exclusive of future escalations for real estate taxes and building operating expenses, are:

YEAR ENDING JULY 31,

	(\$000)
2008	\$ 12,852
2009	12,869
2010	13,148
2011	13,222
2012	13,498
Years subsequent to 2012	42,815

Rental expense for the years ended July 31, 2007 and 2006 was \$11,645,000 and \$12,717,000.

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 \$7,600,000 as of July 31, 2007. The future sublease income has been considered as part of the SFAS No. 146 accrual (see Note 13). Sublease income amounted to \$1,398,000 for the years ended July 31, 2007 and 2006.

Other commitments:

The Institute has other commitments for service agreements in place with various vendors. Minimum commitments in effect as of July 31, 2007 are:

YEAR ENDING JULY 31,

	(\$000)
2008	\$ 9,783
2009	955
2010	803
2011	536

Letters of credit:

As of July 31, 2007, the Institute had two irrevocable standby letters of credit associated with its Washington, DC and North Carolina leases of \$200,000 and \$167,000, respectively. The Washington, DC letter of credit expired in August 2007. The North Carolina letter of credit expires on July 31, 2008.

Line of credit:

The AICPA has available a line of credit with a bank for short-term borrowings of up to \$20,000,000 at the bank's prevailing interest rate. Amounts outstanding under the line of credit are collateralized by certain marketable securities (see Note 6). There were no outstanding borrowings at July 31, 2007. The line of credit expires on April 30, 2008.

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.

8. EMPLOYEE BENEFIT PLANS

Defined benefit pension and postretirement plans:

The Institute sponsors a noncontributory defined benefit pension plan for qualifying employees hired before May 1, 2003. In addition, the Institute sponsors employee postretirement health care and life insurance plans for qualifying employees hired before May 1, 2003 and contributes toward the annual cost of retirees remaining in these plans.

As stated in Note 2, the Institute adopted the provisions of SFAS No. 158 for the year ended July 31, 2007. The incremental effects of applying SFAS No. 158 in the statement of financial position as of July 31, 2007 is \$566,000 and \$72,000 for the defined benefit pension and postretirement plans, respectively.

Economic assumptions used to determine the benefit obligations recognized in the statement of financial position are:

	July 31, 2007	April 30, 2006
Discount rate	6.55%	6.65%
Rate of compensation increase	4.00%	4.00%

Weighted average assumptions used to determine the net periodic benefit cost are:

	July 31, 2007	April 30, 2006
Discount rate	6.65%	6.65%
Expected return on plan assets	8.25%	8.50%
Rate of compensation increase	4.00%	4.00%

The Institute is utilizing a yield curve methodology to determine its discount rate. This methodology uses a weighted average yield to determine the plan's discount rate by forecasting the plan's expected benefit payments by year.

As a result of the AICPA's relocation of certain operations to Durham, North Carolina (see Note 13) and the Plan amendment to provide that no further benefit accruals will occur after April 30, 2017, a curtailment of its defined benefit pension plan was recognized of approximately \$977,000 and \$17,000 as of July 31, 2007 and 2006. A curtailment of the postretirement plan was also recognized of approximately \$1,370,000 and \$239,000 as of July 31, 2007 and 2006. The curtailment was recorded 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.

Amounts that have not yet been recognized as a component of net periodic benefit cost are comprised of net prior service cost (credit) of \$180,000 and \$(2,580,000) for the defined benefit pension and postretirement plans, respectively, for the year ended July 31, 2007.

Amounts in unrestricted net assets and expected to be recognized as components of net periodic benefit cost for the year ending July 31, 2008 are as follows:

	Pension	(\$000)	Post-Retirement
Net loss			\$ 51
Net prior service cost (credit)	\$ 16		(358)

For the year ending July 31, 2008, the Institute expects to contribute \$1,650,000 and \$614,000 to the defined benefit pension and postretirement plans, respectively.

Defined benefit pension plan:

The following tables provide further information about the Institute's pension plan:

July 31, 2007:	Amount
	(\$000)
Benefit obligation at July 31, 2007	\$ 74,266
Fair value of plan assets at July 31, 2007	68,238
Net unfunded status of the plan at July 31, 2007 recognized as a liability in the statement of financial position	\$ 6,028
Employer contributions	\$ 2,263
Benefit payments	\$ (3,856)
Accumulated benefit obligation at July 31, 2007	\$ 70,355

July 31, 2006:	
Benefit obligation at April 30, 2006	\$ 73,544
Fair value of plan assets at April 30, 2006	63,881
Net unfunded status of the plan at April 30, 2006	\$ 9,663
Employer contributions	\$ 2,936
Benefit payments	\$ (3,362)
Amount recognized as a liability in the statement of financial position at July 31, 2006	\$ 6,260
Accumulated benefit obligation at April 30, 2006	\$ 62,669

Estimated future defined benefit pension payments reflecting expected future service for each of the five years subsequent to July 31, 2007 and in the aggregate for the five years thereafter are as follows:

YEAR ENDING JULY 31,	(\$000)
2008	\$ 3,540
2009	3,680
2010	3,820
2011	3,930
2012	4,110
2013 – 2017	23,980

The Institute's percentage of plan assets for the defined benefit pension plan is as follows:

	Target Allocation	Percentage of Plan Assets	
	<u>2008</u>	July 31, 2007	April 30, 2006
Plan assets:			
Domestic equity securities	35-60%	54%	53%
International investments	10-25%	17	17
Fixed income	20-45%	28	29
Other	0-10%	1	1

The Institute's allocation 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 2006.

During the year ended July 31, 2006, the Institute reversed the minimum pension liability of \$3,559,000, which was recorded in the prior year as required by Statement of Financing Accounting Standards No. 87, *Employers' Accounting for Pensions* (SFAS No. 87). 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 and is reflected in general management expense.

Postretirement plan:

The following table provides further information about the Institute's postretirement plan:

July 31, 2007:	Amount
	(\$000)
Benefit obligation at July 31, 2007	\$ 8,082
Net unfunded status of the plan at July 31, 2007 recognized as a liability in the statement of financial position	\$ 8,082
Employer contributions	\$ 790
Benefit payments	\$ (790)
Accumulated benefit obligation at July 31, 2007	\$ 8,082

July 31, 2006:	
Benefit obligation at April 30, 2006	\$ 12,427
Net unfunded status of the plan at April 30, 2006 recognized as a liability in the statement of financial position at July 31, 2006	\$ 12,052
Employer contributions	\$ 622
Benefit payments	\$ (622)
Accumulated benefit obligation at April 30, 2006	\$ 12,427

The weighted average health care cost trend rate used in measuring the postretirement benefit expense is as follows:

<u>Year Ending</u>	<u>Pre-65</u>	<u>Post-65</u>
July 31, 2007	13%	14%
July 31, 2008	12%	13%
July 31, 2009	9%	11%
July 31, 2010	8%	9%
July 31, 2011	7%	8%
July 31, 2012	6%	7%
July 31, 2013	5%	6%
Thereafter	5%	5%

Defined contribution plans:

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 \$1,177,000 and \$1,170,000 for the years ended July 31, 2007 and 2006.

Deferred compensation:

The AICPA has a nonqualified deferred compensation plan for certain key employees. Amounts accrued under this plan are \$1,169,000 and \$351,000 as of July 31, 2007 and 2006 and are included in the accompanying statement of financial position as a component of accounts payable and other liabilities.

9. 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, 2007, the AICPA controls approximately 54% of C2B's voting rights. In accordance with C2B's amended shareholder agreement, the AICPA's voting percentage will exceed 50% in perpetuity, subject to the AICPA's approval to a transaction in which additional shares are issued to an investor. Notwithstanding the AICPA's controlling interest in C2B, the AICPA does not guarantee any of the obligations nor is it responsible for any of C2B's liabilities. As of July 31, 2007, the primary source of funding for C2B has been the preferred stockholders and its own net income; 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, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
		(\$000)
Total assets	<u>\$ 21,740</u>	<u>\$ 20,490</u>
Total liabilities	<u>\$ 10,967</u>	<u>\$ 12,145</u>
Preferred stock	<u>87,354</u>	87,354
Common stockholders' deficiency	<u>(76,581)</u>	<u>(79,009)</u>
Total liabilities and equity	<u>\$ 21,740</u>	<u>\$ 20,490</u>
Total revenue (A)	<u>\$ 17,136</u>	<u>\$ 15,703</u>
Net income	<u>\$ 2,286</u>	<u>\$ 1,455</u>

(A) Includes approximately \$9,872,000 and \$9,369,000 in commissions for services rendered for marketing and promotion of certain AICPA product lines and approximately \$7,264,000 and \$6,334,000 for Business Solutions, affinity, technology services and other business lines for the years ended July 31, 2007 and 2006.

As of July 31, 2007 and 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, 2007 and 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.

Series A and Series B have 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 have rights to an 8% non-cumulative dividend, when and if declared by the Board of Directors of C2B as well as a conversion right into Common Stock at the option of the holder, and anti-dilution protection. The holders of Series A and Series B vote with the holders of the Common Stock as if they were a single class. In addition, the holders of Series A and Series B have special voting rights relating to the creation of more senior preferred stock.

During 2005, 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. All monthly interest payments have been made in accordance with the amendment. 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. The principal balance of the note of \$4,344,000 and related accrued interest for the periods prior to fiscal 2005 of \$1,072,000 have been eliminated in consolidation.

Through February 15, 2007, C2B subleased space from the AICPA in New York and New Jersey and was charged by the AICPA the same pro-rata dollar amount the AICPA paid under its lease. The charges to C2B related to this space were approximately \$178,000 and \$286,000 during 2007 and 2006. These charges have been eliminated in consolidation.

At July 31, 2007, C2B has deferred tax assets of approximately \$51,000,000 which arise primarily from net operating loss carryforwards for Federal income tax purposes of approximately \$124,000,000 expiring through 2020 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, substantially a full valuation allowance has been provided at July 31, 2007. The timing and manner in which the net operating loss carryforwards can be utilized in any year by C2B may be limited by the 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 2007 and 2006 and the only activity has been cancellations after employee terminations. Since there were no grant awards issued in 2007 or 2006, there was no compensation cost recognized in accordance with SFAS No. 123R in the financial statements for the years ended July 31, 2007 or 2006. 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, 2007 and 2006, there were 2,408,532 and 2,439,444 options outstanding, with exercise prices ranging from \$.37 per share to \$5.12 per share.

10. PREFERRED STOCK AND NET ASSETS

Preferred stock and net assets and changes therein for the years ended July 31, 2007 and 2006 follow:

	Balance, August 1, 2005	Increase (Decrease)	Balance, July 31, 2006	Increase (Decrease)	Balance, July 31, 2007
			(\$000)		
Preferred stock of C2B	\$ 87,354	\$ -	\$ 87,354	\$ -	\$ 87,354
Net assets:					
Unrestricted:					
AICPA	32,475	8,923	41,398	(11,129)	30,269
C2B	(84,846)	1,635	(83,211)	2,344	(80,867)
ARA	1,198	88	1,286	(440)	846
Benevolent Fund	5,395	415	5,810	479	6,289
Foundation	2,859	188	3,047	57	3,104
	(42,919)	11,249	(31,670)	(8,689)	(40,359)
Temporarily restricted:					
Foundation	877	35	912	(21)	891
Permanently restricted:					
Foundation	648	—	648	—	648
Total net assets	(41,394)	11,284	(30,110)	(8,710)	(38,820)
Total preferred stock and net assets	\$ 45,960	\$ 11,284	\$ 57,244	\$ (8,710)	\$ 48,534

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:

	<u>2007</u>	<u>2006</u>
		(\$000)
John L. Carey scholarships	\$ 678	\$ 659
Judicial education	139	244
PhD initiative	68	—
Library support	6	9
	<u>891</u>	<u>912</u>

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.

11. 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, 2007 and 2006.

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. In October 2006, the AICPA was informed that alternative sources of funding were secured for this initiative such that the ARA's annual commitment would not be needed. The ARA's Board of Trustees approved a \$1,000,000 financial commitment to XBRL-US, an independent not-for-profit organization founded by the AICPA, dedicated to the development of U.S. financial reporting taxonomies.

12. OTHER RELATED PARTY TRANSACTIONS

The AICPA provides general and administrative services for the American Institute of Certified Public Accountants Insurance Trust ("Trust"). The AICPA received net revenue of \$3,468,000 and \$3,346,000 from the Trust for the years ended July 31, 2007 and 2006.

13. RELOCATION OF CERTAIN OPERATIONS

In October 2005, the AICPA's management team submitted a plan that was approved by the AICPA's Board of Directors and 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 original project estimate was \$48,600,000. Through July 31, 2007, the total project expense was \$41,900,000 and is significantly less than the original estimate due to an unused project contingency of \$6,000,000 and other cost savings. In addition, the original project estimate of \$48,600,000 included certain other personnel cost savings. Such cost savings have been recognized in 2007 during the course of normal operations.

The implementation of the relocation plan began in August 2006 and was completed by July 2007. For the year ended July 31, 2006, management estimated the fair value for the remaining lease payments for Jersey City, net of estimated sublease rentals, to be \$24,400,000. The estimated sublease rental was 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 AICPA accrued approximately \$19,900,000 as of July 31, 2007 and is included in accrued relocation expenses in the statement of financial position and relocation expenses in the statement of activities. The amount accrued in 2007 was lower than the estimate made in 2006 due to the recognition of the 2007 lease payments for Jersey City as rent expense as well as updating certain assumptions with current market data.

In accordance with SFAS No. 146, the AICPA estimated that under this plan total termination benefits to be accrued at fair value, consisting primarily of severance costs and stay bonuses, would be approximately \$7,100,000, of which \$5,600,000 had been accrued as of July 31, 2006 and were included in accrued relocation expenses in the statement of financial position and relocation expenses in the statement of activities. For the year ended July 31, 2007, the AICPA revised its initial estimate of termination benefits from \$7,100,000 to \$6,400,000 due to staff turnover prior to actual position end dates and paid \$6,200,000 in termination benefits. The remaining \$200,000 is included in accrued relocation expenses in the statement of financial position.

For the year ended July 31, 2007, the AICPA reversed its remaining deferred rent liability associated with the Jersey City space, offset by the write-off of certain assets associated with the Jersey City space. This resulted in a reduction of relocation expenses reflected in the statement of activities of approximately \$4,700,000.

The AICPA also incurred other relocation costs, consisting primarily of salaries and benefits for dual operations, consulting expenses, occupancy-related expenses and interest expense. This amounted to \$16,000,000 and \$4,200,000 for the years ended July 31, 2007 and 2006 and are included in relocation expenses in the statement of activities.

The table summarizes the components of exit activities in the accompanying statement of activities for the years ended July 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
		(\$000)
Fair value of remaining lease payments, net	\$ 19,900	
Termination benefits	800	\$ 5,700
Other relocation costs	16,000	4,200
Write-offs, net	(4,700)	
	<u>\$ 32,000</u>	<u>\$ 9,900</u>

Effective July 31, 2007, the relocation project budget was officially closed. Any additional relocation activity that may be encountered in future periods will be absorbed through the normal operating budget of the AICPA.

The AICPA is actively marketing the subleasing of this space. The AICPA currently expects to realize annual cost savings of approximately \$11,000,000 beginning in 2008. The majority of these savings will be used to repay the AICPA's long-term debt until the debt is extinguished.



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