

1987

AICPA annual report 1986-87; AICPA 100 -- A century of progress in accounting

American Institute of Certified Public Accountants

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AICPA 100—A Century of Progress in Accounting

This year we celebrate a century of progress in accounting. The last 100 years has seen the Institute grow from a handful of dedicated accountants who met in New York City to over 255,000 men and women from all areas of the country who pursue varied and exciting careers. Consistent with the traditions we are celebrating, the Institute is facing many opportunities which will lead to new heights in our second century.

The issues we face today will shape the direction of the accounting profession for generations to come. This report outlines a wide array of accomplishments and plans. Of paramount importance is the Institute's effort to restructure its professional standards and to develop new technical standards that will satisfy the public's call for increased auditor responsibility. Please read this report and consider carefully how actions today will affect future generations of CPAs.

AICPA ANNUAL 1986-1987 REPORT

For Excellence in Our Second Century

The Institute's goal for the next century is its most ambitious yet—to promote profession-wide excellence now and in the future. It hopes to accomplish this through the *Plan to Restructure Professional Standards*, a plan that will improve the quality of the profession's service through education and self-regulation. The plan consists of six proposals that will affect the very meaning of the term "CPA" and lend new credibility and prestige to membership in the Institute.

The six proposals, which members will be asked to vote on in November, are:

- A goal-oriented Code of Professional Conduct enforceable through specific rules;
- A practice-monitoring program;
- A restructured Joint Trial Board;
- A 120-hour CPE requirement over a three-year period for members in public practice;
- A 90-hour CPE requirement over a three-year period by 1992 for members not in public practice;
- A 150-semester-hour education requirement, to include a bachelor's degree, beginning in the year 2000.

Council, which voted in May to authorize a membership referendum, urges members to vote in favor of these proposals. Why? Because a positive response can translate into increased prestige and credibility for the CPA profession, greater public confidence in its services and a stronger and more distinctive presence in the marketplace.

The proposals reflect the conclusions of the special committee appointed several years ago to study the standards of profes-

sional conduct. That committee, chaired by George Anderson, reached two significant and inter-related conclusions. They concluded that our existing Code of Ethics is inadequate in today's competitive world and, perhaps more importantly, that significant efforts are necessary to maintain and improve the quality of work performed by members of the Institute.

Improved quality will not only contribute to more effective client services, but will also reinforce the profession's greatest asset, which is the public's belief in the integrity, objectivity and competence of CPAs. The result will be increased public confidence in CPAs as providers of both audit and non-audit services.

To ensure that each member casts an informed vote on the proposals, Council has authorized a wide-ranging communications effort to explain the meaning and significance of the proposals. Council's hope is that an increased awareness of the proposals' implications will encourage the members to vote for "Excellence in Our Second Century."

Washington Issues

Making the voice of the CPA heard in the nation's capital continues to be a priority for the AICPA. A high-level Government Affairs Committee was formed. Bolstered by the addition of former AICPA Chairman B. Z. Lee as Special Assistant to the Chairman for Washington Activities, the Institute has positioned itself for even greater contributions to the profession and the public.

Congressional Oversight

Can the profession improve auditor performance without direct intervention by the federal government? To what extent can it prevent audit failures? What, in fact, can the public and legislators expect from auditors? These are just a few of the questions the profession addressed during hearings conducted by Congressman John Dingell's (D-MI) Energy and Commerce Subcommittee on Oversight and Investigations. During the most recent hearing, the AICPA testified on the recommendations put forth by the National Commission on Fraudulent Financial Reporting, chaired by former SEC Commissioner James C. Treadway. What emerged is a clear mandate for the profession to demonstrate that public responsibility is of the utmost concern to all CPAs.

National Commission on Fraudulent Financial Reporting

The Treadway Commission, sponsored by the AICPA and several other accounting organizations, will be recommending actions that should be taken by the business community, the accounting profession, the SEC and other regulatory agencies and the academic community to deal with the issue of fraudulent financial reporting. In general, the Institute supports these proposals and believes that, coupled with the work of the Auditing Standards Board, they will go a long way toward expanding and clarifying auditor responsibilities.

Government Audits

The Institute is also taking great strides to improve CPA audits of federal financial assistance funds. Representative Jack Brooks (D-TX), Chairman of the Government Operations Committee, is closely watching the profes-

sion's efforts to improve quality in this area. An AICPA task force formed to develop ways to improve audits of governmental units has made 25 significant recommendations for improvement by the government, the accounting profession and others. The Institute has published a revised guide on audits of state and local governmental units and presented training programs across the country on the Single Audit Act. Additionally, the Division for CPA Firms has expanded its peer review program to include audits of governmental units even when a firm performs only a few such audits.

RICO Reform

Reform of the Racketeer Influenced and Corrupt Organizations Act (RICO), which the AICPA brought to the attention of Congress and the business community over two years ago, remains an important concern. The outlook is dim for any meaningful change in the statute, at least for the foreseeable future. Affected groups all endorse change but fail to agree on what kind of change is appropriate. The AICPA will strongly oppose any legislative solution to the RICO problem that does not deal with all concerned in a fair and equitable manner. Because of the action by the federal courts to limit the reach of civil RICO, no RICO reform may be better than bad RICO reform.

Year-End Tax Conformity Legislation

In the area of federal tax legislation, the year-end conformity issue is the single most important problem we are confronting. The AICPA Tax Division successfully spearheaded the drive to introduce legislation that would enable thousands of business entities to retain their fiscal years. S. 1520 and H.R. 2977 are bills introduced in the Senate and the House, respectively, designed to

achieve that objective. We urge all members to support this legislation in correspondence with their Congressional Representatives and Senators.

Expectation Gap

The Auditing Standards Board (ASB) has proposed the most comprehensive changes in auditing standards in almost forty years. Through its ten proposed Statements on Auditing Standards (SASs), the ASB is seeking to close the "expectation gap"—the gap between public expectation of the auditor's responsibility and the auditor's ability to perform. The proposals, which focus on the detection of fraud, audit effectiveness, early warnings and auditor communications, will affect every auditor, company and user of financial statements.

The auditor's responsibility for fraud will be clarified by a standard requiring the auditor to design the examination to detect material irregularities. Another statement will further interpret the auditor's responsibility for detecting and reporting illegal acts.

Audit effectiveness will be enhanced by three proposed standards to codify good practice and focus on auditor judgment. One will require the use of analytical procedures on every audit. Another will expand the auditor's consideration of a client's controls to include not only control procedures but also the control environment and accounting system. A third SAS will help the auditor to evaluate the reasonableness of accounting estimates.

Designed to provide early warning about possible business failure, another standard will require auditors to consider a client's ability to continue in existence. A further proposal will allow auditors to examine and report on management's discussion and analysis.

Three new standards will enhance auditor communications. A revised auditor's standard report will help the public better understand the responsibilities assumed, procedures performed, and assurance provided by the auditor. Clarification of circumstances in which auditors should discuss with client representatives internal control weaknesses, significant accounting policies and the implication of audit adjustments is also being recommended.

FTC Investigation

In its effort to close the expectation gap and increase public confidence in the profession, the Institute is facing a major obstacle, namely an investigation by the Federal Trade Commission. The FTC staff has informed us that unless the Institute agrees to a consent order requiring substantial changes in the Rules of Conduct, most notably in the areas of contingent fees and commissions, they will move forward with an action against the Institute.

The Board of Directors unanimously believes that entering into the proposed consent order would be contrary to the best interests of the public at large, the profession generally and Institute members specifically, and prejudicial to the program to restructure professional standards. Accordingly, the Institute intends to take all steps necessary and appropriate to resist the FTC's demands.

Meanwhile, in order to focus on the Institute's litigation position with the FTC and avoid additional undesirable legal attacks, the Board has concluded that enforcement of the rules being challenged by the FTC should be suspended until the matter is resolved, which could take more than two years. Following such resolution, complaints presently under investigation and those received during the period of

SOURCES AND OCCUPATIONS OF AICPA MEMBERSHIP

	1977	1979	1981	1983	1985	1987
Total AICPA Membership	131,300	149,314	173,900	201,764	231,333	254,910
Public Accounting	57.5%	55.0%	53.3%	53.0%	51.0%	47.6%
Business & Industry	32.0%	34.2%	36.1%	36.9%	38.8%	39.5%
Education	2.8%	3.0%	2.8%	2.7%	2.7%	2.8%
Government	3.5%	3.4%	3.3%	3.3%	3.3%	3.4%
Retired & Miscellaneous	4.2%	4.4%	4.3%	4.1%	4.2%	6.7%
Membership in Public Practice	75,528	82,141	93,082	106,870	117,850	121,349
Firms with one member	22.1%	23.5%	21.8%	22.6%	23.9%	25.6%
Firms with 2 to 9 members	30.1%	32.3%	34.5%	34.0%	33.7%	34.0%
Firms with 10 or more members, except the 25 largest firms	12.0%	12.6%	14.2%	15.0%	15.1%	15.5%
25 largest firms	35.8%	31.6%	29.5%	28.4%	27.3%	24.9%

enforcement suspension will be processed under the final rules that result from the FTC challenge.

Accountants' Legal Liability

The AICPA has been rallying its forces to stem the rapidly growing number of civil lawsuits and the broad extension of liability. The Institute encouraged state CPA organizations to urge state legislatures to reform the laws governing negligence lawsuits. Legislative initiatives include setting reasonable limits on the ability of unforeseen third parties to sue accountants for negligence, as well as limits on the proportion of loss that CPAs would be exposed to in the event that others are also found to be negligent. In addition, the AICPA has filed a number of "friend of the court briefs" in support of positions

important to the profession and will continue to do so at every reasonable opportunity.

Liability Insurance

The Institute's Professional Liability Insurance Plan introduced a new method of pricing based on a firm's revenue, rather than the number of personnel. This change has gained wide favor among participants in the Institute's Professional Liability Insurance Plan. Those members who left the plan because of the substantial premium increases have been encouraged to reconsider their decision in light of the new pricing structure.

Plans also are being implemented to offer the membership an opportunity to create a national captive insurance company owned by and operated for CPAs. The captive company would initially reinsure portions of the AICPA Plan underwritten by the commercial insurance market.

Professional Specialization

Taking a major step, the Board of Directors approved personal financial planning as the first area in which CPAs can be accredited as specialists. Other areas under discussion include governmental auditing, management advisory services and taxation. To prevent duplication, the Colorado Society's national accreditation program will be merged into the Institute's program.

Division for CPA Firms

Membership in the Division for CPA Firms climbed to over 1700 firms representing 51% of members in public practice. The Division's public information program kept the number of public inquiries about membership in the Division at a high level. The Division advertised in banking publications, informed bank lending officers about the peer review program through a direct mail campaign, and conducted briefing sessions at banks in major cities around the country.

Support of the concept of peer review continues to surface in various federal agencies. In addition to a proposal by the SEC and the recommendation of the National Commission on Fraudulent Financial Reporting for peer review of firms that audit publicly held companies, the Federal Deposit Insurance Corporation has made inquiries about starting a quality review program, and peer review will be a requirement for auditing federal grant programs under a GAO-proposed revision of its standards.

A special task force of the SEC Practice Section evaluated the effectiveness and credibility of the Section's Special Investigations Committee (SIC) and made sev-

eral recommendations to improve the SIC's activities. These proposals were accepted by the Practice Section's Executive Committee. Chief among them is a more structured approach in the consideration of alleged audit failure. The task force also suggested that more details about the SIC's activities should be furnished to the office of the Chief Accountant of the SEC on a trial basis. As a result, the Chief Accountant is receiving summaries that describe the specific quality control issues considered by the SIC and the basis for the Committee's conclusions.

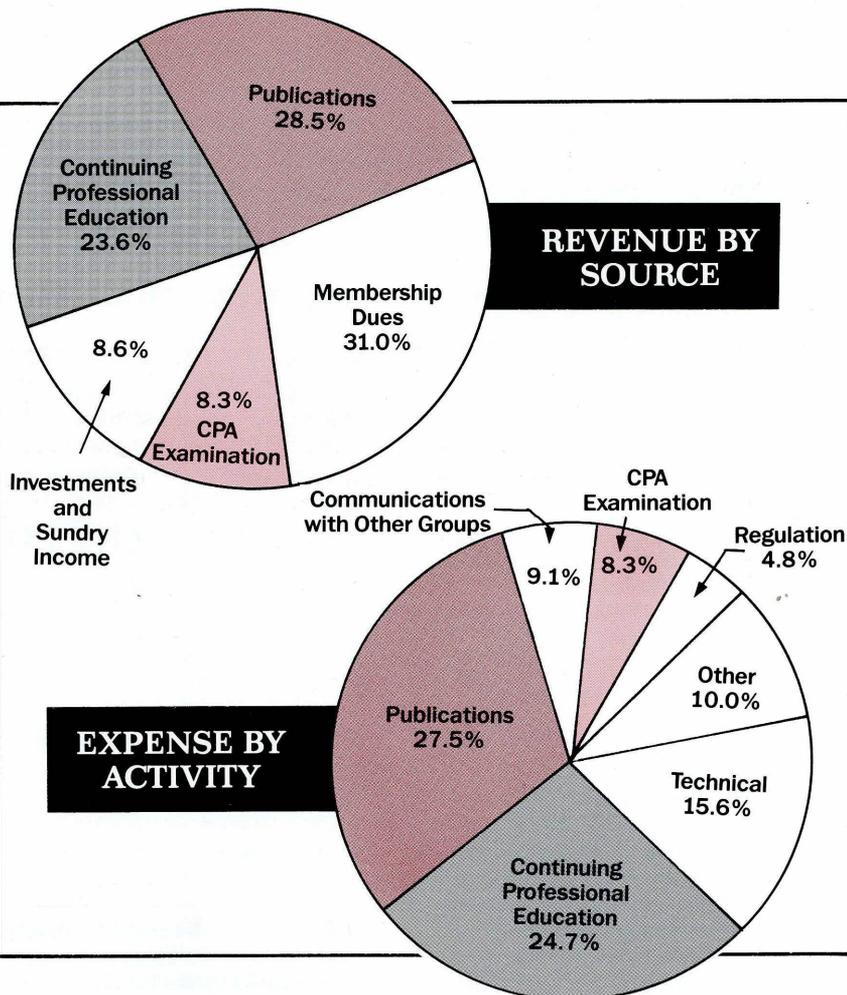
The Private Companies Practice Section (PCPS) continued to work closely with the SEC Section on Division activities. Most changes to peer review procedures are now proposed by joint task forces and adopted by both Sections. Membership growth in PCPS remained strong and services to member firms was a priority. One such service is a tax planning guide for firms, to be published in 1988.

Member Services

The Institute kept pace with the growing needs of the members for a broad range of services. To pinpoint these changing needs, a survey of the membership was undertaken last fall. In addition to identifying the products and services the membership wants, the survey resulted in an overall positive evaluation of the Institute's service to the membership.

Technical Information

Technical Information staff members answered nearly 36,000 inquiries last year from members seeking assistance. The Library staff handled an additional 40,000 member questions while also lending materials. In addition, the National Automated Accounting Research System (NAARS) continues to provide examples of



financial statement presentations and footnote disclosures to subscribers. The Institute also ventured into the competitive computer software market with the introduction of the Audit Program Generator.

Insurance and Retirement Programs

The Institute's insurance program continues to provide a vital service to members and their firms. In addition to professional liability coverage for almost 12,000 small and medium-sized firms, term life insurance and long-term disability insurance are available for individuals. The term life insurance program, which now also covers members' spouses, is growing rapidly. Total insurance in force has more than doubled since 1980; it is now reaching \$33 billion, and should reach \$40

billion in 1988. Coverage of up to \$500,000 is available to those who belong to both the AICPA and a state society. A membership retirement program, with current assets of some \$130 million, also offers smaller practice units a way to provide for retirement.

Public Relations

Many of the Institute's external programs centered around Centennial activities, culminating in the Centennial Annual Meeting in New York. During the year, an independently written book on issues facing the profession was commissioned and published and the U.S. Postal Service issued a special commemorative stamp marking the profession's Centennial. Moreover, during the Centennial a special CPA supplement was

published in the national edition of *The New York Times*. Also, a musical extravaganza entitled "100 Years of Entertainment" is being held at the famed Radio City Music Hall.

Meanwhile, the Institute continues its aggressive media placement activities, concentrating on stories about the profession's high ethical standards and the diverse services offered by CPAs. In its communications efforts, the Institute capitalized on the good news contained in the recent Lou Harris survey, especially the high marks for CPAs' honesty, competence and reliability.

A successful collaboration with the U.S. Office of Consumer Affairs and the Social Security Administration featured a popular public service brochure on Social Security. A number of members also participated in the rigorous media training course offered by the Communications Division.

Voluntary Membership Divisions

More and more members looking to enhance their professional competence turned to the Institute's voluntary membership divisions, boosting division memberships to record levels.

Tax Division

Developing new services for its 19,000 members is a priority of the Tax Division. Located in the Institute's new Washington offices, the Tax Division has expanded its support staff, now headed by Donald H. Skadden, newly appointed Vice President—Taxation.

The executive committee of the Division is in the process of deciding whether to seek accreditation for CPAs as specialists in taxation or certain aspects of the work and is also considering a more active public relations program.

Management Advisory Services Division

The Management Advisory Services Division and the Personal Financial Planning Division began operation on August 1, 1986. Both divisions spent the year developing services for their growing memberships.

With membership nearing the 4,000 mark, the MAS Division produced and distributed three small business consulting practice aids, including "Valuation of a Closely Held Business," two technical consulting practice aids, one practice administration aid, an MAS special report on artificial intelligence and four issues of its newsletter "CPA Management Adviser." The Division's first annual meeting is scheduled for October 1987 in New Orleans.

Personal Financial Planning Division

The Personal Financial Planning Division, with some 7,000 members, carried out a successful public awareness program featuring ads in *Forbes*, *Money* and *Sylvia Porter's Personal Finance* magazines. The Division advised on CPE courses in financial planning, assisted in drawing up criteria for specialization in financial planning and also helped develop positions on legislative and regulatory matters regarding personal financial planning. A bimonthly newsletter, "The Planner," was introduced, and a 450-page loose-leaf *Personal Financial Planning Manual*, with technical, management and marketing sections, was made available to members.

Continuing Professional Education

The Continuing Professional Education Division (CPE) continues to face the difficult challenge of providing member service on a cost-effective basis.

In an effort to stabilize CPE's financial results, the Institute is undertaking the development of a long-term business plan designed to ensure the Institute's excellence in CPE. Efforts remained largely focused on the new tax program with special conferences aimed at educating CPAs about the changes in the tax law, but specialized knowledge in other areas was also a major objective. A certificate of educational achievement program was developed for personal financial planning. By next year, similar programs will be in place for government auditing and microcomputer consulting.

National Curriculum

On June 30, the National Curriculum, "A Pathway to Excellence," was officially published, marking the first attempt by any profession to define its body of knowledge. The 950-page document specifies a structured and integrated CPE curriculum in six major fields of study: accounting and auditing, advisory services, management, personal development, specialized knowledge and applications, and taxation.

Publications

The *Journal of Accountancy's* special Centennial issue in May exemplified the success enjoyed by Institute publications this year. The 400-page Centennial issue drew praise from both members and the business community for its in-depth look at the history and legacy of the profession. James Don Edwards, CPA, Ph.D., J.M. Tull Professor of Accounting, University of Georgia, deserves special recognition for his outstanding effort in editing the *Journal's* Centennial issue. Other notable publishing achievements include the eagerly awaited

Accountant's Business Manual and significant increases in advertising revenue for both *The Tax Adviser* and *Journal of Accountancy*. In addition, the "CPA Client Bulletin" continues to provide clients of members with valuable news and information.

Strategic Planning and the Future

With constant change affecting the profession in the form of greater competitive pressures in the marketplace, burgeoning technological advances and an increasing demand to demonstrate greater public responsibility, the need for a long-term strategic plan to guide the Institute is greater than ever. To meet this need, a planning division was formed this year to help implement a formal strategic planning process.

Institute Operations

Operations for the past year resulted in an excess of expenses over revenue of \$805,000, a decline of \$1,988,000 from last year's results and \$560,000 greater than the budgeted deficit of \$245,000. Revenue exceeded budget by \$1,198,000 and cost of sales was higher than budget by \$812,000. All other expenses exceeded budget by \$946,000.

In an organization the size of the Institute, variations from budgeted results are to be expected. In addition, decisions made during the year to undertake projects not anticipated at the beginning of the year may differ from the budget provided for such unidentified projects. CPE's expenditures exceeded revenue, primarily because of the unanticipated impact of the late

passage of TRA '86. While we benefitted from the presentation of special programs on TRA '86, the cost of these programs and the resulting change in product mix created an increase in cost of sales and a larger than anticipated writeoff of obsolete material.

Independent consultants completed a study of the Institute's operations and their recommendations are being implemented. However, the budget for 1987-88 shows an excess of expenses over revenue of \$1,530,000. Therefore, it seems likely that a dues increase will be necessary for 1988-89.

Conclusion

We are privileged to serve the membership during this Centennial year. It has been a challenging and exciting year which taxed all our energies. Much has been accomplished but much remains to be done.

At the dawn of the profession's second century, we believe that the Institute will continue to meet the challenges that lie ahead with vigor and determination. Its greatest assets are you, its members, who are dedicated to producing the highest quality of professional services and responding to the public's changing needs. As we enter our second century, we urge each member to carefully consider the proposals being put before you in the *Plan to Restructure Professional Standards* and to vote "yes" on each proposal. You will receive your ballot in early November. Please vote for "Excellence in Our Second Century." ■



J. Michael Cook

J. Michael Cook, Chairman of the Board

Philip B. Chenok

Philip B. Chenok, President

**American Institute of Certified Public Accountants
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Responsibilities for Financial Statement

The following financial statements of the American Institute of Certified Public Accountants, the American Institute of Certified Public Accountants Foundation, the AICPA Benevolent Fund, Inc. and the Accounting Research Association Inc., were prepared by management of the Institute which is responsible for their reliability and objectivity. The statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Financial information elsewhere in this annual report is consistent with that in the financial statements.

Management is further responsible for maintaining a system of internal accounting controls, designed to provide reasonable assurance that the books and records reflect the transactions of the entities and that its established policies and procedures are carefully followed. Management reviews and modifies the system of internal accounting control for its effectiveness and the system is augmented by written policies, the careful selection and training of qualified personnel, and a program of internal audit. Management believes that the system of internal accounting control provides reasonable assurance that assets are safeguarded and that financial information is objective and reliable.

Independent certified public accountants are engaged to examine the financial statements of the above entities and issue a report thereon. Their examination is conducted in accordance with generally accepted auditing standards which comprehend a review of internal accounting controls and a test of transactions. The Accountant's Report appears on the next page.

The Board of Directors, through its Audit Committee (comprised of non-management Directors) is responsible for providing reasonable assurance that management fulfills its responsibilities in the preparation of the financial statements and in the maintenance of the system of internal accounting control. The Audit Committee annually selects the independent public accountants and submits its selection to the Board of Directors, and then to the Council, for approval. The Audit Committee meets with management, the independent certified 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 certified public accountants and the internal auditor meet with the Audit Committee, without management representatives present, to discuss the results of their examination, the adequacy of internal accounting controls, and the quality of financial reporting.

J. Michael Cook
Chairman of the Board

Philip B. Chenok
President

J. H. COHN & COMPANY
ACCOUNTANTS

NEWARK, NJ
NEW YORK, NY
PRINCETON, NJ
ROSELAND, NJ
SAN DIEGO, CA

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NEW YORK, NY 10022-4406
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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Members of the
American Institute of Certified Public Accountants

We have examined the accompanying balance sheet of the AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS as of July 31, 1987, and the related statements of revenue and expenses, changes in fund balances and cash flow for the year then ended. We have also examined the balance sheets of the American Institute of Certified Public Accountants Foundation, the AICPA Benevolent Fund, Inc. and the Accounting Research Association, Inc. as of July 31, 1987 and the related statements of changes in fund balances for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of the American Institute of Certified Public Accountants and Related Organization Funds identified above for the year ended July 31, 1986, were examined by other auditors whose report, dated September 4, 1986, expressed an opinion that the financial statements were in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which they concurred, in the method of accounting for pensions as described in Note 6 to the financial statements.

In our opinion, the 1987 financial statements referred to above present fairly the financial position of each of the aforementioned organizations as of July 31, 1987, and the results of their operations and the changes in their fund balances and, for the American Institute of Certified Public Accountants, the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

J. H. Cohn & Company

New York, New York
August 25, 1987

Financial Statements

American Institute of Certified Public Accountants

Balance Sheet

	July 31	
	1987	1986
Assets:		
Cash	\$ 412,000	\$ 210,000
Marketable securities (market value: 1987, \$20,446,000; 1986, \$21,589,000)	17,546,000	19,631,000
Accounts receivable (less an allowance for doubtful accounts of \$483,000 in each year)	6,212,000	6,145,000
Inventories	2,972,000	3,382,000
Deferred costs and prepaid expenses	2,682,000	3,626,000
Furniture, equipment, and leasehold improvements	5,550,000	4,932,000
	<u>35,374,000</u>	<u>37,926,000</u>
Funds held for Division for CPA Firms	1,930,000	1,480,000
	<u>\$37,304,000</u>	<u>\$39,406,000</u>
 Liabilities and Fund Balances:		
Liabilities and deferred revenue:		
Accounts payable and other liabilities	\$ 7,478,000	\$ 6,374,000
Accrued taxes	687,000	915,000
Advance dues	3,684,000	4,701,000
Unearned revenue from subscriptions and other sources	5,453,000	7,059,000
	<u>17,302,000</u>	<u>19,049,000</u>
Funds held for Division for CPA Firms	1,930,000	1,480,000
General fund balances	18,072,000	18,877,000
	<u>\$37,304,000</u>	<u>\$39,406,000</u>

**American Institute of
Certified Public Accountants**

**Statement of
Revenue and Expenses**

	Year Ended July 31	
	1987	1986
Revenue:		
Dues	\$23,241,000	\$21,397,000
Publications	21,317,000	17,502,000
Continuing professional education	17,681,000	17,319,000
CPA examinations	6,200,000	6,294,000
Investment and sundry income	4,643,000	4,339,000
Conferences	1,786,000	1,789,000
	<u>74,868,000</u>	<u>68,640,000</u>
Expenses (see also summary of expenses by activity):		
Cost of sales	16,685,000	15,578,000
Salaries	20,834,000	18,974,000
Personnel costs	3,853,000	2,993,000
Occupancy	5,864,000	5,429,000
Postage and shipping	5,367,000	4,651,000
Printing and paper	4,645,000	4,172,000
Professional services	4,011,000	3,740,000
Meetings and travel	4,032,000	3,439,000
Promotions and advertising	2,410,000	1,775,000
Contributions	1,562,000	1,215,000
Equipment rental and maintenance	1,125,000	1,102,000
Commercial services	1,173,000	1,037,000
Income taxes	700,000	839,000
Telephone	807,000	689,000
Fees	677,000	406,000
General and administrative	1,928,000	1,418,000
	<u>75,673,000</u>	<u>67,457,000</u>
(Deficiency) excess of revenue over expenses	<u>\$ (805,000)</u>	<u>\$ 1,183,000</u>

**American Institute of
Certified Public Accountants**

**Summary of
Expenses by Activity**

	Year Ended July 31	
	1987	1986
CPA examinations	\$ 6,262,000	\$ 6,541,000
Publications:		
Produced for sale	15,822,000	13,975,000
Distributed to members and others	4,975,000	4,671,000
Continuing professional education	18,666,000	17,977,000
Conferences	1,572,000	1,913,000
Technical:		
Accounting and review services	65,000	92,000
Accounting standards	1,080,000	960,000
Auditing standards	2,158,000	1,859,000
Federal taxation	1,754,000	1,474,000
Management advisory services	800,000	558,000
Computer services	46,000	19,000
International practice	528,000	406,000
Technical assistance to members	1,813,000	930,000
Library	1,391,000	1,312,000
NAARS program	590,000	515,000
Financial Accounting Foundation contribution	477,000	483,000
Accountants' legal liability	400,000	495,000
Fraud commission	680,000	307,000
Regulation:		
Ethics and trial board	1,327,000	1,467,000
State legislation	373,000	382,000
Division for CPA Firms	909,000	840,000
Quality control programs	1,041,000	1,045,000
Organization and membership:		
Board, council and annual meetings	2,043,000	1,073,000
Nominations and committee appointments	166,000	159,000
Communications with members	483,000	280,000
Membership services	2,079,000	1,580,000
Special organizational studies	1,251,000	411,000
Communications with other groups:		
Public relations	1,715,000	1,448,000
State societies	194,000	223,000
Universities	690,000	638,000
Federal government	3,473,000	2,811,000
Assistance programs for minority students and businesses	850,000	613,000
	<u>\$75,673,000</u>	<u>\$67,457,000</u>

**American Institute of
Certified Public Accountants**

**Statement of Changes
in Fund Balances**

	Year Ended July 31	
	1987	1986
General Fund:		
Fund balance, beginning of year	\$18,877,000	\$17,694,000
(Deficiency) excess of revenue over expenses	(805,000)	1,183,000
Fund balance, end of year	<u>\$18,072,000</u>	<u>\$18,877,000</u>

**American Institute of
Certified Public Accountants**

Statement of Cash Flow

	Year Ended July 31	
	1987	1986
Sources of Cash and Marketable Securities:		
(Deficiency) excess of revenue over expenses	\$ (805,000)	\$ 1,183,000
Depreciation of furniture and equipment and amortization of leasehold improvements	1,058,000	880,000
Amortization of deferred costs	1,690,000	1,289,000
Total provided from operations	<u>1,943,000</u>	<u>3,352,000</u>
Billings for subscriptions and advertising in excess of amounts earned	—	2,490,000
Decrease in inventory	410,000	841,000
Changes in accounts payable, accounts receivable and accrued taxes	808,000	(2,185,000)
	<u>3,161,000</u>	<u>4,498,000</u>
Uses of Cash and Marketable Securities:		
Dues earned in excess of amounts collected	1,017,000	2,464,000
Payment of costs that will be expensed in the future	745,000	3,002,000
Amount of subscriptions and advertising earned in excess of amounts billed	1,606,000	—
Purchase of furniture, equipment and leasehold improvements	1,676,000	1,054,000
	<u>5,044,000</u>	<u>6,520,000</u>
Net decrease	(1,883,000)	(2,022,000)
Cash and marketable securities, beginning of year	19,841,000	21,863,000
Cash and marketable securities, end of year	<u>\$17,958,000</u>	<u>\$19,841,000</u>

	American Institute of Certified Public Accountants Foundation		AICPA Benevolent Fund, Inc.		Accounting Research Association, Inc.	
	1987	1986	1987	1986	1987	1986
Balance Sheet—July 31						
Assets:						
Cash.....	\$ 5,000	\$ 3,000	\$ 3,000	\$ 26,000	\$ 119,000	\$ 9,000
Marketable securities, at lower of cost or market*	2,287,000	2,174,000	1,478,000	1,397,000	830,000	981,000
Notes and mortgages receivable (net of allowance for doubtful collections 1987, \$54,000; 1986, \$49,000)	—	—	230,000	170,000	—	—
Dues receivable.....	—	—	—	—	873,000	656,000
Other receivables	32,000	25,000	16,000	14,000	8,000	15,000
	<u>\$2,324,000</u>	<u>\$2,202,000</u>	<u>\$1,727,000</u>	<u>\$1,607,000</u>	<u>\$1,830,000</u>	<u>\$1,661,000</u>
Liabilities and Fund Balances:						
Liabilities and deferred revenue:						
Accounts payable.....	\$ 6,000	\$ 29,000	\$ —	\$ —	\$ 248,000	\$ 208,000
Advance dues.....	—	—	—	—	1,152,000	1,048,000
Scholarships payable.....	320,000	308,000	—	—	—	—
	<u>326,000</u>	<u>337,000</u>	<u>—</u>	<u>—</u>	<u>1,400,000</u>	<u>1,256,000</u>
Fund balances:						
General.....	29,000	25,000	1,727,000	1,607,000	430,000	405,000
Library.....	899,000	884,000	—	—	—	—
John L. Carey Scholarship Fund.....	361,000	308,000	—	—	—	—
Accounting Education Fund for Disadvantaged Students	696,000	633,000	—	—	—	—
E.W. Sells Award Fund.....	13,000	15,000	—	—	—	—
	<u>1,998,000</u>	<u>1,865,000</u>	<u>1,727,000</u>	<u>1,607,000</u>	<u>430,000</u>	<u>405,000</u>
	<u>\$2,324,000</u>	<u>\$2,202,000</u>	<u>\$1,727,000</u>	<u>\$1,607,000</u>	<u>\$1,830,000</u>	<u>\$1,661,000</u>
*NOTE:						
Marketable securities at market.....	<u>\$2,447,000</u>	<u>\$2,283,000</u>	<u>\$1,669,000</u>	<u>\$1,514,000</u>	<u>\$ 931,000</u>	<u>\$1,043,000</u>

**Statement of Changes
in Fund Balances—
Year Ended July 31**

	American Institute of Certified Public Accountants Foundation		AICPA Benevolent Fund, Inc.		Accounting Research Association, Inc.	
	1987	1986	1987	1986	1987	1986
Additions:						
Investments and miscellaneous income	\$ 134,000	\$ 155,000	\$ 85,000	\$ 100,000	\$ 43,000	\$ 65,000
Gain on sale of securities	131,000	102,000	168,000	126,000	79,000	66,000
Contributions/dues	397,000	348,000	116,000	27,000	2,794,000	2,522,000
	<u>662,000</u>	<u>605,000</u>	<u>369,000</u>	<u>253,000</u>	<u>2,916,000</u>	<u>2,653,000</u>
Deductions:						
Contributions/scholarships	525,000	526,000	—	—	2,532,000	2,551,000
Assistance to members and families ..	—	—	224,000	169,000	—	—
FASB subscription service	—	—	—	—	200,000	211,000
Other	4,000	8,000	25,000	15,000	159,000	103,000
	<u>529,000</u>	<u>534,000</u>	<u>249,000</u>	<u>184,000</u>	<u>2,891,000</u>	<u>2,865,000</u>
Increase (decrease) in fund balances ..	133,000	71,000	120,000	69,000	25,000	(212,000)
Fund balances, beginning of year	1,865,000	1,794,000	1,607,000	1,538,000	405,000	617,000
Fund balances, end of year	<u>\$1,998,000</u>	<u>\$1,865,000</u>	<u>\$1,727,000</u>	<u>\$1,607,000</u>	<u>\$ 430,000</u>	<u>\$ 405,000</u>

American Institute of CPAs and Related Organization Funds

Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles in the United States. The accounting principles used also conform, in all material respects, with the International Accounting Standards adopted by the International Accounting Standards Committee (IASC).

A summary of the accounting policies followed by the American Institute of Certified Public Accountants (Institute) and, if applicable, the American Institute of Certified Public Accountants Foundation (Foundation), the AICPA Benevolent Fund, Inc. (Benevolent Fund) and the Accounting Research Association, Inc. (ARA) follows:

- Assets, liabilities, revenue and expenses are recognized on the accrual basis.
- Marketable securities are stated at the lower of aggregate cost or market. If market value declines below cost, the resulting write-down is charged directly against the fund balance. Gains and losses on the sale of securities are included in operating results.
- Inventories are stated at the lower of cost or market. A monthly moving average method is used for determining inventory cost.
- Furniture, equipment, and leasehold improvements are stated at cost, less accumulated depreciation or amortization computed on the straight-line method. Furniture and equipment are depreciated over their estimated useful lives of five to ten years. Leasehold improvements are amortized over the shorter of their useful lives or the remainder of the lease period.
- The Institute records dues as revenue in the applicable membership period. Dues of ARA members, which support the Financial Accounting Standards Board (FASB) and Governmental Accounting Standards Board (GASB) are assessed on a calendar year basis and recognized as additions to the fund balance in equal monthly amounts during each calendar year.
- Receivables for subscriptions are recorded when billed to customers, net of an allowance for estimated cancellations. Revenue from subscriptions is deferred and recognized in the statement of revenue and expenses on a straight-line basis over the term of the subscription. Costs involved in fulfilling subscriptions are recognized over the life of the subscription and procurement costs are charged to expense as incurred.
- Advertising revenue is recorded as publications are issued.
- Contributions to specific funds are recorded as additions to fund balances in the period to which the contributions are intended to apply.
- 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.

■ Accounting policies, as they relate to the Institute's pension plan, are described in Note 6 to the financial statements.

Notes to Financial Statements July 31, 1987 and 1986

1. Marketable Securities

Marketable securities, at cost, consist of:

	1987	1986
U.S. Treasury bonds and notes	\$ 4,898,000	\$ 3,899,000
Bonds, notes, and certificates of deposit	5,323,000	8,643,000
Equities	7,325,000	7,089,000
	<u>\$17,546,000</u>	<u>\$19,631,000</u>
Market value	<u>\$20,446,000</u>	<u>\$21,589,000</u>

2. Inventories

Inventories at July 31, 1987 and 1986 consist of:

	1987	1986
Paper and material stock	\$ 614,000	\$ 515,000
Publications in process	556,000	472,000
Printed publications and course material	1,802,000	2,395,000
	<u>\$2,972,000</u>	<u>\$3,382,000</u>

3. Furniture, Equipment, and Leasehold Improvements

Furniture, equipment, and leasehold improvements at July 31, 1987 and 1986 were:

	1987	1986
Furniture and equipment	\$ 6,890,000	\$5,701,000
Leasehold improvements	4,482,000	4,109,000
	11,372,000	9,810,000
Less accumulated depreciation and amortization	5,822,000	4,878,000
	<u>\$ 5,550,000</u>	<u>\$4,932,000</u>

Depreciation of furniture and equipment and amortization of leasehold improvements for the years ended July 31, 1987 and 1986 were \$1,058,000 and \$880,000.

4. Taxes

The Institute is a professional organization under Section 501(c)(6) of the Internal Revenue Code and is subject to tax on unrelated business income arising from the sale of mailing lists and advertising in the *Journal of Accountancy* and the *Tax Adviser*.

5. Lease Commitments

Minimum rental commitments on noncancellable real estate and equipment leases in effect as of July 31, 1987 were \$33,372,000. This amount does not include future escalations for real estate taxes and building operating expenses. Minimum rental commitments are:

Year Ended July 31

1988	\$ 3,899,000
1989	3,741,000
1990	3,740,000
1991	3,667,000
1992	3,668,000
Years subsequent to 1992	14,657,000
	<u>\$33,372,000</u>

Rental expense for the years ended July 31, 1987 and 1986 were \$5,503,000 and \$5,339,000.

6. Retirement Plan

The Institute sponsors a noncontributory defined benefit pension plan for substantially all employees. Pension benefits begin to vest after five years of service and are based on years of service and average salary as defined by the plan. The Institute's funding policy is to contribute funds to a trust as necessary to provide for current service and for any unfunded projected benefit obligation over a reasonable period. To the extent that these requirements are fully covered by assets in the trust, a contribution may not be made in a particular year.

The Institute elected to adopt the provisions of FASB Statement No. 87, "Employers' Accounting for Pensions," as of August 1, 1985. The effect of this change in accounting principles on net pension expense for the year ended July 31, 1986 was an estimated reduction of \$607,000.

The components of the net pension expense for the years ended July 31, 1987 and 1986 were as follows:

	1987	1986
Service cost—benefits earned during the year	\$ 822,000	\$ 764,000
Interest cost on projected benefit obligation	880,000	893,000
Return on plan assets:		
Actual	(3,414,000)	(4,488,000)
Deferred	1,991,000	3,112,000
Net amortization of unrecognized net asset	(274,000)	(274,000)
	<u>\$ 5,000</u>	<u>\$ 7,000</u>

Funded status of the plan:

	May 1	
	1987	1986
Actuarial present value of projected benefit obligation, based on employment service to date and current salary levels:		
Vested benefits	\$ 7,971,000	\$ 6,869,000
Non-vested benefits	699,000	628,000
Additional amounts related to projected salary increases	<u>4,265,000</u>	<u>3,723,000</u>
Projected benefit obligation	<u>\$12,935,000</u>	<u>\$11,220,000</u>
Assets available for benefits:		
Plan assets at fair value	\$20,966,000	\$18,023,000
Accrued pension cost	5,000	7,000
	<u>\$20,971,000</u>	<u>\$18,030,000</u>
Assets in excess of projected benefit obligation:		
Unamortized portion of amount existing at date FAS No. 87 was adopted	\$ 4,529,000	\$ 4,803,000
Amount arising subsequent to adoption of FAS No. 87	<u>3,507,000</u>	<u>2,007,000</u>
	<u>\$ 8,036,000</u>	<u>\$ 6,810,000</u>

The amount of assets in excess of projected benefit obligation on May 1, 1985, the date on which FAS No. 87 was adopted, is being recognized in determining pension expense over 18.5 years. The discount rate used to determine the actuarial present value of the projected benefit obligation was 7½% as of May 1, 1987 and 8% as of May 1, 1986. The expected long-term rate of return on plan assets used in determining net pension expense for fiscal years ended July 31, 1987 and 1986 was 9½% and 10%, respectively. The assumed rate of increase in future compensation levels was 5% and 5½% for 1987 and 1986, respectively.

The Institute also sponsors a 401(k) defined contribution plan covering substantially all employees fulfilling minimum age and service requirements. Participation in the plan is optional. Employer contributions are made to the plan in amounts equal to varying percentages of employee contributions. The cost of this plan was \$196,000 and \$179,000 for 1987 and 1986, respectively.

7. Related Organization Funds

The purposes of the related organization funds are:

Foundation: To advance the profession of accountancy and to develop and improve accountancy education.

Benevolent Fund: To raise money to provide financial assistance to needy members of the Institute and their families.

Accounting Research Association: To provide a best efforts commitment to the financing of the Financial Accounting Foundation.

Some assets are committed to specific activities:

Foundation: The Foundation plans to distribute, from the Accounting Education Fund for Disadvantaged Students, approximately \$350,000 each year for scholarships to minority students. Additional amounts will be provided for assistance programs to enhance the accounting faculty of minority universities.

Accounting Research Association (ARA): The ARA makes an annual best efforts commitment to raise funds for the Financial Accounting Standards Board (FASB) from sources within the accounting profession. The commitment is \$2,335,000 for the calendar year 1987.

The ARA also makes a best efforts commitment to raise funds for support of the Governmental Accounting Standards Board (GASB). The commitment is \$400,000 for the calendar year 1987. It is anticipated the ARA will continue to support the FASB and GASB.

8. Commitment to Financial Accounting Foundation (FAF)

The Institute makes an annual contribution of \$2.00 per member to the FAF to support the work of the FASB.

9. Division for CPA Firms

The Institute acts as custodian of the cash and marketable securities of the Division for CPA Firms (Division). The total amounts involved are shown on the accompanying balance sheets as offsetting assets and liabilities.

The balances at July 31, 1987 were:

	Cash	Marketable Securities	Total
Private Companies			
Practice Section	\$ 8,000	\$ 402,000	\$ 410,000
SEC Practice Section . .	12,000	1,508,000	1,520,000
	<u>\$20,000</u>	<u>\$1,910,000</u>	<u>\$1,930,000</u>

The Division's balance sheet and statement of changes in fund balances, on the accrual basis, were:

Balance Sheet	Year Ended July 31, 1987	
	Private Companies Practice Section	SEC Practice Section
Assets:		
Cash	\$ 8,000	\$ 12,000
Marketable securities at cost (market value \$2,029,000)	402,000	1,508,000
Dues and other receivables	36,000	70,000
	<u>\$446,000</u>	<u>\$1,590,000</u>
Liabilities and Fund Balances:		
Accounts payable	\$ 46,000	\$ 121,000
Advance dues	177,000	542,000
Fund balances	223,000	927,000
	<u>\$446,000</u>	<u>\$1,590,000</u>

Statement of Changes in Fund Balances	Year Ended July 31, 1987	
	Private Companies Practice Section	SEC Practice Section
Additions:		
Dues	\$270,000	\$1,339,000
Gain on sale of securities	18,000	44,000
Other	38,000	83,000
	<u>326,000</u>	<u>1,466,000</u>
Deductions:		
Expenses of Public Oversight Board:		
Salaries and fees	—	621,000
Administrative expenses	—	429,000
	<u>—</u>	<u>1,050,000</u>
Public relations program	114,000	104,000
Printing	37,000	10,000
Membership directory	12,000	15,000
Legal fees	—	21,000
Administrative and other expenses	76,000	14,000
	<u>239,000</u>	<u>1,214,000</u>
Net increase in funds	87,000	252,000
Fund balances, beginning of year	136,000	675,000
Fund balances, end of year	<u>\$223,000</u>	<u>\$ 927,000</u>

In addition to the expenses shown above, the Institute incurred expenses during the years ended July 31, 1987 and 1986 in support of the Division and in connection with related quality control programs. These expenses are included in the accompanying Summary of Expenses by Activity.