5-15-1985

Spring Meeting of Council, May 15-17, 1985 Scottsdale, Arizona, Minutes of Meeting

American Institute for Computer Sciences

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

SPRING MEETING OF COUNCIL
May 15-17, 1985
Scottsdale, Arizona

MINUTES OF MEETING

A meeting of the Council of the American Institute of Certified Public Accountants was held on Wednesday, Thursday, and Friday, May 15-17, 1985 in Crystal Ballroom 1-4, at The Registry Resort, Scottsdale, Arizona.

Ray J. Groves, Chairman of the Board, presided.

The following were present:

OFFICERS

Ray J. Groves, Chairman of the Board - Ohio
Herman J. Lowe, Vice Chairman - Louisiana
Philip B. Chenok, President - New York
Paula H. J. Cholmondeley, Vice President - New Jersey
Merle S. Elliott, Vice President - Maryland
Charles G. Steele, Vice President - New York
Don J. Summa, Treasurer - New Jersey
Donald J. Schneeman, Secretary - New York
Bernard Z. Lee, Immediate Past Chairman - Texas

ELECTED MEMBERS

John D. Abernathy, III - New York
David H. Abramson - Minnesota
Robert L. Albrecht - Wisconsin
James D. Beaton - Arizona
Robert M. Benjamin - Oregon
Robert C. Bennett - Colorado
David A. Berenson - New York
Julian D. Berlin, Jr. - Virginia
George L. Bernstein - Pennsylvania
Irving J. Bloom - Florida
Russell S. Bogue, Jr. - Florida
Robert C. Brannon - Tennessee
George E. Brockman - Ohio
Gordon E. Brooks - California
Truman W. Brooks - Tennessee
Roy G. Brown - Oklahoma
Russell M. Brown - Arkansas
Kenneth G. Cadematori - New York
David L. Chervenak - Kentucky
Lawrence R. Cinquegrana - New Jersey
John F. Clearman - Washington
Robert D. Clyde - Texas
Robert M. Coffman - Colorado
Benjamin E. Cohen - Connecticut
Eileen T. Corcoran - Illinois
Lamar W. Davis - Georgia
Eugene L. Delves - Illinois
Andre L. Dery - New Hampshire
William D. Devlin - California
Merlin E. Dewing - Minnesota
Martin I. Dittelman - Rhode Island
R. Lawrence Drees - Indiana

William F. Easley - California
J. H. Englebach - Oklahoma
Robert Fagliarone - New York
Ellen J. Feaver - Montana
Al A. Finci - California
Steven N. Fischer - New York
William J. Fisk - Vermont
Emil E. Fleck, Jr. - Missouri
Robert W. Ford - California
Victor F. Foti - Virginia
Frank C. Frago - Connecticut
Shirley J. Garcia - California
Joseph P. Germain, Jr. - Connecticut
Richard G. Gibson - Wisconsin
William W. Gleason - West Virginia
Daniel S. Goldberg - New Jersey
Emmitte J. Haddox - Mississippi
Bryan M. Hassler - Alabama
Stephen A. Hennesey - New Jersey
Norman P. Horn - Virginia
Donald E. Howard - Maryland
C. Brooks Hubbert - Maryland
John D. Huelster - Missouri
J. Curtis Hyers - Florida
Daniel R. Hylland - South Dakota
Robert L. Israeloff - New York
Larry S. Kamanitz - Maryland
John H. Kennedy - Pennsylvania
Stuart Kessler - New York
Donald W. Kregel - Michigan
John J. Kron - Ohio
William T. Kuhl - Michigan
William B. LaPlace - Ohio
Rex S. Leforgee - Idaho
Kenneth H. Lever - California
Leroy C. Livermore - Oregon
Joseph A. Lovejoy - Maine
Don M. Lyda - Texas
George E. Manning - Massachusetts
Luis Marques-Guillermety - Puerto Rico
Jimmie L. Mason - Texas
Robert L. May - New York
Barry E. McLaurin, Jr. - South Carolina
Ida H. McMahon - Alaska

William E. McReynolds - Texas
Carmen R. Milano - Illinois
Bernard Mintz - New York
John W. Moffitt - Delaware
Arthur H. Morrison - Illinois
Robert W. Moss - Colorado
George A. Olsen - Iowa
Dominic V. Palazzo - Michigan
George L. Patterson, Sr. - Florida
Robert A. Peyroux - Louisiana
J. Allen Poole - Georgia
Selwin E. Price - Illinois
Darold D. Rath - North Dakota
Ralph A. Rehmet - New York
Thomas W. Rimerman - California
John S. Ross, Jr. - Pennsylvania
Ronnie Rudd - Texas
Paul W. Ruopp - New Jersey
Robert A. Satin - California
Gary L. Schaugaard - California
J. Donald Schwab - Pennsylvania
Johnnie Ray Seale - Texas
William H. Shine - New Jersey
Susan S. Smith - California
Todd S. Smith - Guam
Chester D. Stocker - Ohio
Revelle B. Taylor - Nevada
John P. Thomas - Florida
Barton P. Thompson - Arizona
Walter L. Throgmorton - Wyoming
Harry F. Topping - Illinois
William E. Tremper - Washington
Joseph G. Trindle - Kansas
Leon H. Turner - New Jersey
Janice I. Vincent - California
Michael W. Walker - New York
Stephen M. Walker - New Mexico
Edward A. Weinstein - New York
Doyle Z. Williams - California
I. Lee Wilson - Texas
Ernest R. Wish - Illinois
Jodie D. Woolard, Jr. - N. Carolina
Eugene R. Wos - Ohio
Harry Yolles - DC

MEMBERS AT LARGE

Dennis R. Beresford - Ohio
J. Michael Cook - New York
John L. Fox - New York
James W. Giese - Texas
Francis A. Humphries - South Carolina
J. Fred Kubik - Kansas
Ulyesse J. LeGrange - Texas
Harry M. Linowes - DC
J. David Moxley - New York
William L. Raby - Arizona
J. Fred Skousen - Utah
Sandra A. Suran - Oregon
Donald M. Tannenbaum - New York
James B. Thomas, Jr. - DC
John A. Thompson - New York
Robert D. Thorne - Illinois
Thomas S. Watson, Jr. - DC

EX OFFICIO

Past Presidents/Chairmen of the Board:

George D. Anderson - Montana
Ivan O. Bull - Illinois
Joseph P. Cummings - Connecticut
Samuel A. Derieux - Virginia
William S. Kanaga - New York
Rholan E. Larson - Minnesota
Stanley J. Scott - Texas
Marvin L. Stone - Colorado

Board of Directors:

Robert C. Ellyson - Florida
Barry B. Findley - Arkansas
Gerald W. Hepp - Michigan
Thomas L. Holton - New York
Glenn Ingram, Jr. - Illinois
Alan B. Levenson - DC
W. Ian A. McConnachie - Washington
Thomas C. Pryor - New York
Mahlon Rubin - Missouri
Joseph A. Silvoso - Missouri
A. Marvin Strait - Colorado

STATE SOCIETY DESIGNATED REPRESENTATIVES

Kermit L. Allard - Wyoming
C. M. Angel - Arkansas
Jorge E. Aponte - Puerto Rico
Louis J. Barbich - California
Converse A. Chellis, III - S. Carolina
James V. Cleary - Maryland
C. Russell Coffman - Hawaii
Margaret A. DeBoe - DC
Raymond C. Dugdale - New Hampshire
Roy Flegenheimer - Arizona
Lester S. Fry, Jr. - Pennsylvania
Morton H. Gavens - Connecticut
Dan H. Hanke - Texas
Fletcher D. Harris - Virginia
Jack S. Harris - Alabama
Gary D. Hovdestad - North Dakota
Eugene R. Joerger - Iowa
Lee Kesselman - Delaware
J. Thomas Knight - Nebraska
James M. Lane - Florida
Harold Q. Langenderfer - N. Carolina
John S. Lee - New Jersey
Michael V. McKay - Kansas
Harold J. Mollere - Louisiana
Charles W. Phillippi - New Mexico
David L. Reimer - South Dakota
Mark E. Richardson - West Virginia
Edward H. Rudert - Georgia
Charles S. Schutte - Missouri
Lloyd A. Schwartz - Michigan
Jerome A. Seidman - New York
Stephen W. Smith - Idaho
Douglas M. Sparks - Colorado
R. Wayne Stratton - Kentucky
Patrick M. Thorne - Nevada
David C. Verrill - Maine
Edward C. Wartelle - Washington
Roger L. Yeley - Ohio

INDEX

Wednesday, May 15, 1985

After ascertaining that a quorum was present, Chairman Ray J. Groves welcomed members of Council and guests and outlined the program for the meeting. He reported on the regional meetings of members of Council held in March. He also reported on actions taken by the Board of Directors at its meeting on April 11-12, and on the Congressional hearings.

Election to Fill Council Vacancies

On recommendation of the Board of Directors, Council elected the following as members of Council to fill the vacancies indicated:

Pablo O'Neill (Virgin Islands) to fill the unexpired term of Charles W. Neilsen, term expires in October 1985

Chester D. Stocker (Ohio) to fill the unexpired term of James J. Kausch, term expires in October 1986

Approval of Minutes of the October 13, 1984 Meeting

The minutes of the October 13, 1984 meeting of Council were approved, as distributed.

<u>Treasurer's Report/Interim Financial Statements</u> (Exhibit A)

Chairman Groves introduced Don J. Summa, Treasurer. Mr. Summa said that the Institute's finances were in sound condition with a significant, but not excessive, excess of revenue over expenses. The financial statements and an analysis had been previously mailed to the Council on April 26, 1985. He said that the attention given to the profession in Congressional hearings and by governmental agencies has occupied a considerable amount of staff time and can be expected to continue, with an indeterminate impact on the budget.

Following Mr. Summa's remarks, he was asked to explain an item relative to recruiting expenses and he reported that several high level staff positions were filled during the year through the use of executive recruiting firms. It was suggested that the state societies be notified when such positions existed so that they can provide input on likely candidates.

Several other questions of a general nature were asked and after discussion, on motion duly made and carried, the statements were accepted.

Modification of Council Resolution Regarding
AICPA Nominations Committee

Mr. Groves said that at the annual meeting in Atlanta, the members present adopted a resolution calling for a bylaw change that would prohibit the Nominations Committee from selecting any of its members for positions of high office. Mr. Groves explained that under the bylaws, the action taken at the annual members meeting was advisory to the Council and that the Board of Directors, following discussion at the regional meetings of members of Council, recommended a change in the implementing resolution under bylaw Section 3.6.2.1 which would prohibit the Nominations Committeee from selecting any of its members for positions to be filled by the committee.

It was moved and seconded that the Council resolution under Section 3.6.2.1 be amended by adding:

> And Further Resolved:
> That the nominations committee shall not select any of its members for positions to be filled by the committee.

Mr. Groves called for discussion and a vote on the motion, and a vote being taken, the motion was adopted.

Report from the Public Oversight Board (POB)

Mr. Groves introduced Arthur M. Wood, Chairman of the Public Oversight Board of the SECPS Practice Section. He said that Council had received a report from Mr. Wood's predecessor, John J. McCloy, and it was fitting for the Council to again hear the board's views.

Mr. Wood acknowledged the confidence that the Institute's Board of Directors expressed in the POB in its recent decision to eliminate the right of the Board of Directors to approve appointment of members to the POB and their compensation. He said that action was a further example of the board's close working relationship with the Institute, while enhancing the POB's independence.

Mr. Wood said that the POB is concerned that investors and depositors are losing faith in the profession's ability to perform its unique function of assuring the integrity of financial information. He stressed his confidence in the profession's responses to criticism and its attempts to assure quality performance. Specifically, he indicated that the POB had testified before Congress that the peer review system is a success and is meeting the goals for which it was designed. Nonetheless, he also observed that the audits which have come under scrutiny in the Congressional hearings were performed by firms that have never received anything but a clean opinion on their respective peer reviews. This illustrates, he said, that as valuable as quality controls are, there are no guarantees that work will always be done in accordance with established standards. He called on the profession to continue its efforts to improve the profession's performance.

Mr. Wood acknowledged the proposal for an interdisciplinary study on financial fraud and said the Board would watch that project with interest.

He said that the confidentiality of the Special Investigations Committee's (SIC) operations resulted from long and serious consideration by the profession. The POB has a high regard for the work of the SIC, but as long as only the SIC or the POB know what the SIC is doing with respect to individual cases, the self-regulatory process will not gain the credibility it deserves. He said the SEC should be given access to the SIC process to permit it to form its independent opinion about the process. He also challenged whether the SIC can perform its function satisfactorily without some access to the cases in litigation. The committee should be able to determine whether the litigation which occasioned the inquiry indicates quality control deficiencies. He said that the POB had no desire of putting the SIC in the position of determining guilt or responsibility in individual cases.

Mr. Wood said the POB also suggested that financial institutions of other than modest size should fall under the same reporting requirements for SECPS/SIC purposes as public companies. He also suggested a tightening up of the peer review process with respect to first-time audits.

Scope of services was another matter of concern to the POB. While self-discipline and restraint would appear to be the best response to concerns over ever widening service opportunities, Mr. Wood said the profession appeared to be continuing to extend the reach of its services. He called for an updating of the work the POB did in the late 1970's with respect to this activity. Finally, he called on the profession to be aware that intensive price competition for audit services could lead to a perception that the quality of its product will be correspondingly reduced.

Mr. Groves thanked Mr. Wood for his presentation and the members of the POB for their continued dedication to the profession and its publics.

Presentation of Outstanding Educator Award

Mr. Groves presented the first AICPA Outstanding Educator Award to Charles T. Horngren, Edmund W. Littlefield Professor of Accounting at Stanford University.

Washington Developments

Mr. Groves presented a video tape of excerpts of the first four days of hearings before Congressman John Dingell's Subcommittee on Oversight and Investigations. Following the film, he introduced a panel consisting of Charles Curtis, Special Counsel, Philip B. Chenok, AICPA President, Theodore C. Barreaux, Vice President-Government Relations, and Thomas P. Kelley, Group Vice President-Professional.

Each of the panelists made a brief presentation. Mr. Barreaux described the background of the current Congressional hearings and their impact on the profession. He also described the Institute's response on both the legislative and judicial fronts to the unintended use against the accounting profession of the Racketeer Influenced and Corrupt Organizations (RICO) act in a way not contemplated by Congress in passing that law. The Institute will be testifying at hearings to consider legislation to modify the act and has participated as a friend of the court in a U. S. Supreme Court case reviewing the act. He also described activities with respect to the Administration's proposed tax changes and the cash vs. accrual method to file tax returns.

Mr. Chenok described the development of the testimony and paper which the Institute had presented at the Congressional hearings of and the implementation of its program of response.

Mr. Curtis also commented on the significance to the accounting profession of the hearings and the numerous and notorious major bank failures.

Mr. Kelley described responses being developed within the Division for CPA Firms to the challenges that the profession had not adequately regulated itself.

Following the presentation, Council members commented on the issues and asked a number of questions regarding RICO and other matters raised in the presentation such as bank regulation and self-regulation.

At the conclusion of the session, members of Council congratulated the production of the taping of the Congressional hearings. Mr. Chenok said that copies of the tape were being made available on a gratis basis to state societies so that members can have a first-hand knowledge of the areas covered.

Open Forum

Several members raised questions about the availability of the profession's liability insurance. At the chair's request, Donald J. Schneeman, General Counsel and Secretary, explained the current status of the professional liability insurance market and of the Institute's program for assuring that liability insurance is available to cover the practices of local and regional firms. Mr. Groves said that he had requested the Institute's outside legal counsel, Willkie Farr & Gallagher, to make a specific study of the whole area of the legal liability of CPAs in its broadest sense. At Mr. Groves' request, Kenneth J. Bialkin of that firm reported on the structure and intent of the study which he said was just getting under way. He said it was hoped that as a result of the study, ways could be found to obtain some limits on unreasonable exposure.

A member observed that the Auditing Standards Board issued an exposure draft on February 15 with a deadline for comments on June 15. He suggested that this was a very difficult time for the membership to direct its attention to reviewing technical literature and suggested that an extension of the exposure period would be appropriate. Later in the meeting, it was reported that the exposure period had been extended through July 15, 1985.

The Chairman recognized Lloyd Schwartz, a member from Michigan, who offered, on behalf of the Michigan Association of CPAs, the following resolution:

> RESOLVED: That it is the sense of the Council that rampant, direct, uninvited solicitation and competitive bidding tend to put severe pressure on the quality of the services performed by CPAs. Accordingly, the Board of Directors is instructed to consider how the profession might seek legislative relief from the application of the Sherman Anti-trust Act and the Federal Trade Commission Act.

The Chairman indicated that he would open the floor for discussion of the resolution, but would defer a vote until Friday morning. In the interim, copies of the resolution would be prepared and distributed to Council.

There followed a general discussion on the wisdom of adopting the resolution and implementing it.

Following that discussion, the Chairman adjourned the meeting for the day.

Thursday, May 16, 1985

Chairman Groves opened the meeting at 8:00 AM and said that following presentations on the work of the Mission of AICPA Special Committee and on the work of the Special Committee on Standards of Professional Conduct for CPAs (Anderson Committee), the Council would break into discussion groups to address the matters presented by the chairmen of those committees.

Mr. Groves introduced John C. Burton, Chairman of the Mission of AICPA Special Committee. Mr. Burton noted that a copy of the committee's interim report had been distributed to the Council and observed that there were striking similarities between the conclusions of the Anderson Committee and the Mission Committee. He said that the committees had not worked together, nor consulted as they were developing their positions, but it appeared that the committees identified similar issues and reached consistent conclusions on how to deal with them. He said the Mission Committee had been appointed to consider the mission of the Institute, with particular emphasis on the role that should be played by members not in public practice.

The Mission Committee interim report indicated that the accounting profession should serve the public interest, and that all members of the profession, whether or not in public practice, share that responsibility. The committee placed a responsibility on AICPA to assist members to serve the public interest when they utilize "CPA skills." Thus, the report focuses not on a member's occupation but the nature of the skills the member is using. The report also suggested that those not in public practice should be more involved in the governance of the Institute. Accordingly, all members are part of the mission to the Institute and should serve the public interest with integrity and objectivity. If they do, membership in the Institute will be far more meaningful than it has been in the past. The report also treats the Institute's responsibility with respect to standards for entry into the profession, maintenance of professional competence, helping members to develop their professional expertise, and providing standards of conduct for performance. The report also suggests that the Institute take a positive role in monitoring performance.

Following Mr. Burton's presentation, the Chairman introduced George D. Anderson, Chairman of the Special Committee on Standards of Professional Conduct for CPAs. Mr. Anderson said that his committee had spent two years in evaluating the relevance of existing ethical standards to professionalism, integrity, and a commitment to quality service and the public interest in these changing times. He reminded the Council that he has periodically reported on the work of his committee. The committee has concluded that the existing rules of conduct no longer influence behavior to the extent that they should and that there exists a gap between public expectations and the level of performance of the profession. Overall, the goal of the committee would be to have AICPA membership viewed both by its members and the public as meaning more than the mere possession of a CPA certificate.

The committee suggested that the 13 rules of the existing code of ethics be replaced with a goal-oriented, positively-stated code of professional conduct which would set forth the optimum rather than the minimum standards of behavior. An illustrative code had been distributed to the Council which contained positively-stated standards of integrity, objectivity, and due care. The new code would apply equally to all members, those in public practice and those not in public practice. The senior technical committees would be responsible for developing their standards in the light of the standards established in the positive code.

The committee proposed also that all members in practice be required to participate in quality assurance review programs which would provide for an on-going and systematic monitoring of practice. The program would be administered through the state CPA societies and would start with reviews of reports submitted by firms with more intensive review where deficiencies were identified. The program would be educational in nature and sanctions would be reserved for willful non-cooperation and for failure to implement needed corrective measures. The committee also proposed a greater interface with the state boards of accountancy.

Following Mr. Anderson's presentation, he and Mr. Burton received and responded to questions from the floor.

Following the question period, the Chairman instructed the Council to move to the individually-assigned discussion groups.

Friday, May 17, 1985

Gold Medal Award

At the invitation of the Chairman. Samuel Derieux, Chairman of the Awards Committee, announced the award of the Institute's Gold Medal for Distinguished Service to Rholen E. Larson. The award will be made at the annual meeting in October.

Welcome to the Annual Meeting in Hawaii

Carole Gibbs-Fisher, Chairman of the Annual Meeting Hospitality Committee, welcomed the Council to attend its Fall meeting in Hawaii and described the program for the annual meeting in that city.

Action on Pending Resolution

Mr. Groves said that he had received a motion on Wednesday which provided:

> RESOLVED: It is the sense of the Council that rampant, direct, uninvited solicitation and competitive bidding tend to put severe pressure on the quality of the services performed by CPAs Accordingly, the Board of Directors is instructed to consider how the profession might seek legislative relief from the application of the Sherman Anti-trust Act and Federal Trade Commission Act.

Copies of the resolution had been distributed. The motion had been seconded and Mr. Groves called for discussion. Benjamin Cohen, a member from Connecticut, moved to amend by striking the first paragraph and the first word of the second paragraph so that the motion would read:

> The Board of Directors is instructed to consider how the profession might seek legislative relief from the application of the Sherman Anti-trust Act and Federal Trade Commission Act.

The motion to amend was seconded, and a vote being taken, was carried.

The Chairman then called for discussion on the amended motion. A number of members of Council rose to question the wisdom of moving for such relief in the present enviornment, while others pointed out that the motion simply called for the Board of Directors to consider the matter.

John Huelster, a member from Missouri, moved that the motion be tabled and a vote being taken, the motion to table carried. The Chairman indicated that even though the Council would not act further on the motion at this meeting, the matter would be brought to the attention of the Board of Directors for consideration.

Report on Thursday's Breakout Sessions

The Chairman invited H. J. "Monday" Lowe, Vice Chairman of the Board of Directors, to report on the breakout sessions which had been held on Thursday.

Mr. Lowe said that he had met with the staff who had been assigned to each discussion session for a debriefing with respect to the Mission of AICPA Special Committee interim report and said there was substantial concern among Council members about the meaning of the term "to serve the public interest" as used in the document. It was felt that there was clearly a need to clarify that concept as it relates to serving the needs of members, their clients, and the public. Some members also called for more precise definition of the term "professional skills of CPAs." There was strong concurrence in the proposal that the governance of the Institute not be limited to those in public practice.

Mr. Lowe said the strongest support was for the proposal that AICPA take a more active role in promoting the professional services of CPAs and enhancing confidence in those services. Each of the discussion leaders had difficulty in dealing with concerns over implementation, since the Mission Committee had not dealt with implementation.

The report of the Special Committee on Standards of Professional Conduct for CPAs also received general support for the overall concept. There was a concurrence in the proposal to have the senior technical committees issue their pronouncements in the light of the standards identified in the Code of Professional Ethics.

The proposed quality assurance review program consumed most of the time allotted to the committee's report. Serious concerns were expressed regarding implementation, particularly over the ability of some state societies to support such a program, the lack of resources among many state societies and state boards of accountancy, the willingness of societies and boards to cooperate on such a program, a potential loss of AICPA members, and concern over the potential impact on the Private Companies Practice Section.

The discussion draft of the positively-stated code was generally viewed as a reasonable document, but there was concern about its lack of specificity and its treatment of independence as a subset of objectivity.

Mr. Lowe said that the staff had been requested to memoralize their notes from the meetings and those memos will be forwarded to the respective committees. Mr. Lowe concluded by saying that it appeared that Council had given to both committees an instruction to continue their work with specific suggestions for modifications.

Mr. Groves recognized Ralph Rehmet, Council member from New York, who offered the following motion:

> Whereas, the AICPA's testimony before Congress committed the AICPA to monitor the effectiveness of auditing standards, and stated that a special AICPA committee is studying the relevance of the AICPA Code of Professional Ethics and the adequacy of the related enforcement machinery in today's environment, and;
>
> Whereas, the chairman of the special committee informed Council yesterday that nothing in the proposals released alleged by the committee would have, if already adopted, avoided the audit failures published in the April 1985 Public Accounting Report, which alleged failures resulted in judgments and settlements aggregating approximately $185,000,000, and;
>
> Whereas, all of the firms listed in such articles are members of the AICPA Division for CPA Firms SEC Practice Section and have received unqualified opinions in their latest peer reviews, and;
>
> Whereas, Congressman John Dingell has warned the accounting profession that time is running out to show it can regulate itself, now;
>
> Therefore, be it resolved that this Council instruct the Chairman of the AICPA to, one set up a

task force with the charge of investigating each audit failure listed in the PAR article for violation of professional standards, and, two bring disciplinary proceedings against each party deemed to have violated the standards, and three, study the failures and develop recommended changes in audit procedures and SECPS policies to strengthen the profession's ability to reduce audit failure.

Philip Chenok rose to say that Mr. Rehmet had submitted the motion for typing and distribution to the Council and Mr. Groves said that discussion would be deferred until the members received a copy.

After copies of the resolution had been distributed, Mr. Groves opened the floor for discussion of the resolution.

Mr. Chenok observed that the motion called for the establishment of a special task force to investigate audit failures and to refer charges regarding audit failures and bring disciplinary proceedings against those found to have been guilty of violating standards. Mr. Chenok said that since the bylaws already established a process for dealing with alleged substandard work, it would seem inappropriate for the Council to take initiatives with respect to a matter already dealt with in the bylaws.

Mr. Rehmet said he was agreeable to dropping the first two items from his resolution so that the resolution would call only for the Institute to "study the failures and develop recommended changes in audit procedures and SECPS policies to strengthen the profession's ability to reduce audit failure." The amendment was seconded.

Mr. Chenok observed that the amended motion called for a committee similar to the special committee which was appointed to consider the Equity Funding situation a number of years ago. Since that time, the Division for CPA Firms had been formed by the Council and had in place a process through the Special Investigations Committee to investigate all alleged audit failures of SEC registrants.

There followed a number of general comments that it appeared that Mr. Rehmet's motion would duplicate an existing process. Thomas Kelley, Group Vice President-Professional, described the operations of the SIC and its response to alleged audit failures. Mr. Groves said that he is in the process of appointing a special interdisciplinary committee to look at the causes of and suggest remedies for management fraud.

Following further discussion, Mr. Rehmet amended his motion to read (after "three"):

> To set up a task force with a charge of requesting the firms to make their workpapers and personnel available for the sole purpose of studying the

allegations and developing recommended changes in auditing procedures and SECPS policies to strengthen the profession's ability to reduce audit failures.

It appeared that the motion was a substitute for the existing motion and failed for lack of a second.

There followed further discussion, and the question was called. A vote being taken on Mr. Rehmet's amended motion, the chair declared that the motion was defeated.

Report from the Governmental Accounting Standards Board (GASB)

Mr. Groves introduced James F. Antonio, Chairman of the Governmental Accounting Standards Board. Mr. Antonio reviewed the origins of the Board and said that just a few years ago, subsequent to the 1975 New York City financial crisis, a number of bills were introduced into Congress, one of which would have established a governmental accounting standards board as a Federal agency. The CPA profession and state and local government officials strongly opposed Federal control of the setting of such financial standards and cooperated in having the Financial Accounting Foundation establish the GASB in the private sector. He acknowledged the Institute's efforts in this regard, as well as those of the other sponsoring parties.

Mr. Antonio said that the GASB is part-time, except for his role as chairman, and that it shares facilities and works closely with the FASB, while each of the bodies remain independent of the other. The Board's current budget is $1 1/2 million, 50% of which comes from state governments, 27% from the accounting profession, and the remainder from revenue-producing activities.

As one of its first acts, the GASB took action to keep in force pronouncements of the National Council of Government Accounting and pronouncements of the AICPA State and Local Government Audit Guide and statements of position regarding state and local government accounting. He then described items currently on the Board's agenda and indicated that a codification of existing government standards would soon be published. He described a number of areas which would be addressed in the near future by the Board. He said that through action of the Auditing Standards Board, pronouncements of the GASB have enforceability through the auditing standards rules, but called on the Institute at an early date to give pronouncements of the GASB Rule 203 authority, so as to put them on a level with pronouncements of the Financial Accounting Standards Board.

Mr. Groves thanked Mr. Antonio for his report.

Federal Trade Commission Investigation

At the chairman's request, Donald Schneeman reported to the Council on the on-going Federal Trade Commission investigation into certain rules of conduct and interpretations of the Professional Ethics Executive Committee. He described the measures that have been taken under the Board's direction to preserve the confidentiality of the ethics investigation and inquiry process and said that there is no present indication when the investigation would be complete.

Report from the Federal Tax Division

Chairman Groves introduced Bernard Barnett, a representative of the Federal Taxation Executive Committee, who reported on the growth and activities of the Federal Tax Division. He said that the 14,500 members who have joined in its first year have far exceeded the number that were expected to join. Members of the tax division pay $70 for which they receive a tax division newsletter, The Tax Adviser, for the privilege of attending meetings of the Federal Tax Division, and material helpful to them in tax practice. Attendance at tax division meetings offers the opportunity to exchange ideas with fellow tax practitioners.

Mr. Barnett said the division is aware of complaints regarding communications with the IRS. Those complaints relate to unanswered letters from practitioners, lost deposit or payments, multiple or unwarranted penalty notices, vague notices that do not sufficiently inform the recipient as to what is being sought, and notices with insufficient computations. A number of meetings have been held with the IRS and with top Treasury officials as well as the staff of the GAO and the House Ways and Means Committee. The division has sought examples of the problem from its members, has synthesized the responses, and is making presentations based on that report to the national office of the IRS in Washington. The division is hopeful that its interface will help the Service to resolve the problems.

The division is also working with the Service on a new systematic survey of tax practitioners. This is the first time the Service has sought the perceptions of those engaged in tax practice.

Mr. Barnett said that the division has been working closely with government officials developing a response to the Administration's proposals for tax reform, currently known as Treasury II. The division supports simplification and fairness in tax reform and its comments will be directed toward keeping any reforms simple and fair.

The division is also providing comment on the profession's behalf on a proposal which would prohibit the use of the cash method of tax accounting by any trade or business which has gross receipts of $5 million or more or more annually, or which uses the accrual method in any financial statement. The proposal would impact firms of all sizes and the division will continue to opppose it.

Following Mr. Barnett's presentation, he responded to questions from the floor.

Report on AICPA Public Relations Efforts

Mr. Groves introduced William J. Corbett, who was appointed within the past year as Vice President-Communications. Mr. Corbett outlined the need for good pubic relations and said that the profession is already held in high esteem by the publics which rely on it. He stressed the need for action, rather than words or slogans. He reminded the Council that the Institute operates by public consent, and that the consent can be withdrawn if the profession does not meet public expectations. He said he was confident that the initiatives being taken with respect to professional standards, auditing standards, detection of fraud, self-regulation, and auditor independence will all assist in maintaining a high level of public confidence in the profession.

Mr. Corbett described improvements which will be made in the Institute's program for relations with state societies and in its ability to command greater media attention. He also expressed confidence in the Institute's program in support of public services and identified a number of oportunities for greater and ehanced public relations.

* * * * * *

Following Mr. Corbett's presentation, the Chairman declared that their being no further business to come before the meeting, it was adjourned.

EXHIBIT A

AICPA

American Institute of Certified Public Accountants

1211 Avenue of the Americas, New York, New York 10036-8775 (212) 575-6200

Telex: 70-3396

April 26, 1985

TO THE MEMBERS OF COUNCIL OF THE
AMERICAN INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS

Financial statements for the Institute and related organizations covering the eight months ended March 31, 1985 are attached.

The Treasurer will make a report at the Council meeting on Wednesday, May 15 and will answer any questions you might have at that time.

Respectfully submitted,

Donald L. Adams

DONALD L. ADAMS, CPA
Vice President
Finance and Administration

DLA:er
Attachment

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
AND AFFILIATED ORGANIZATIONS
EIGHT MONTHS ENDED
MARCH 31, 1985 AND March 31, 1984

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

REVENUE AND EXPENSES SUMMARY
FISCAL 1984-85
EIGHT MONTHS ENDED MARCH 31

	IN THOUSANDS			
	Actual 1983-84	Actual 1984-85	Budget 1984-85	Variance
REVENUE				
Revenue Producing Activities*	$26,789	$27,272	$27,980	$ (708)
Dues*	11,713	13,299	12,930	369
Investments	1,642	1,983	1,593	390
Other*	535	437	423	14
	40,679	42,991	42,926	65
COST OF SALES*	8,541	10,375	10,403	28
EXPENSES				
Salaries	10,113	10,642	10,760	118
Fees	233	238	268	30
Personnel costs	1,895	2,260	2,506	246
Recruiting	117	293	124	(169)
Occupancy*	3,301	3,379	3,269	(110)
Printing and paper*	2,234	2,575	2,487	(88)
Meetings and travel*	2,399	2,627	2,769	142
Postage and shipping	2,466	2,802	2,646	(156)
Professional services	815	1,363	1,165	(198)
Telephone	518	593	501	(92)
Equipment rental & maintenance	486	680	656	(24)
Advertising	881	915	981	66
Contributions	566	705	648	(57)
Income taxes	468	607	567	(40)
Other*	1,103	1,411	1,837	426
	27,595	31,090	31,184	94
	$ 4,543	$ 1,526	$ 1,339	$ 187

*See Detailed Schedule

DETAILED REVENUE SCHEDULE
FISCAL 1984-85
EIGHT MONTHS ENDED MARCH 31

	IN THOUSANDS			
	Actual 1983-84	Actual 1984-85	Budget 1984-85	Variance
REVENUE PRODUCTING ACTIVITIES				
CPE Programs	$12,200	$11,844	$12,925	$ (1,081)
Publication Sales	4,917	5,045	4,772	273
Subscriptions	1,604	1,730	1,919	(189)
Magazines	1,846	1,831	1,818	13
CPA Examination Fees	2,639	2,565	2,578	(13)
Advertising	2,357	3,083	2,701	382
List sales	291	282	259	23
Conferences	935	892	1,008	(116)
	26,789	27,272	27,980	(708)
DUES				
Membership	11,713	12,658	12,530	128
Tax Division	-	641	400	241
	11,713	13,299	12,930	369
OTHER				
NAARS	276	201	260	(59)
Quality Control	39	51	92	(41)
Miscellaneous	220	185	71	114
	535	437	423	14

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

DETAILED COST OF SALES AND
EXPENSES SCHEDULE
FISCAL 1984-85
EIGHT MONTHS ENDED MARCH 31

	IN THOUSANDS			
	Actual 1983-84	Actual 1984-85	Budget 1984-85	Variance
COST OF SALES				
CPE	$ 5,377	$ 6,270	$ 6,471	$ 201
Publications	1,842	2,168	1,924	(244)
Subscriptions	625	861	953	92
Magazines	675	776	730	(46)
Conferences	22	27	27	-
CPA Exam material	-	273	298	25
	8,541	10,375	10,403	28
OCCUPANCY				
Rent and utilities	2,920	2,657	2,579	(78)
Depreciation and amortization	361	515	487	(28)
Facility maintenance	20	204	200	(4)
Other	-	3	3	-
	3,301	3,379	3,269	(110)
PRINTING AND PAPER				
Gratis publications	1,629	2,066	1,905	(161)
Exposure drafts	77	91	145	54
Other	528	418	437	19
	2,234	2,575	2,487	(88)

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

DETAILED COST OF SALES AND
EXPENSES SCHEDULE/2
FISCAL 1984-85
EIGHT MONTHS ENDED MARCH 31

	IN THOUSANDS			
	Actual 1983-84	Actual 1984-85	Budget 1984-85	Variance
MEETINGS AND TRAVEL				
Member travel	$1,049	$1,189	$1,313	$ 124
Meetings	792	795	832	37
Staff travel	476	549	535	(14)
Business meals	82	94	89	(5)
	2,399	2,627	2,769	142
OTHER				
Awards	49	62	70	8
Books and magazines	151	202	136	(66)
Commercial services	321	391	614	223
Honorariums	37	71	71	-
Insurance	46	49	47	(2)
Office supplies and stationery	290	318	304	(14)
Speakers travel	54	55	47	(8)
Royalties	11	8	10	2
Sundry	144	255	205	(50)
Reserve for unbudgeted projects	-	-	333	333
	1,103	1,411	1,837	426

REVENUE PRODUCING ACTIVITIES SUMMARY
FISCAL 1984-85
EIGHT MONTHS ENDED MARCH 31

	IN THOUSANDS				
	Actual 1983-84	Actual 1984-85	Budget 1984-85	$ Variance	% Variance
CPE Programs					
Revenue	$12,200	$11,844	$12,925	$(1,081)	(8)
Expense	10,826	11,742	12,736	994	8
	$ 1,374	$ 102	$ 189	$ (87)	(46)
Publication Sales					
Revenue	$ 6,380	$ 6,655	$ 6,522	$ 133	2
Expense	5,060	5,805	5,515	(290)	(5)
	$ 1,320	$ 850	$ 1,007	$ (157)	(16)
Other Subscriptions					
Revenue	$ 155	$ 143	$ 178	$ (35)	(20)
Expense	92	67	17	(50)	(294)
	$ 63	$ 76	$ 161	$ (85)	(53)
Magazines					
Revenue					
Subscriptions	$ 1,823	$ 1,807	$ 1,793	$ 14	1
Advertising & list sales	2,648	3,364	2,960	404	14
	$ 4,471	$ 5,171	$ 4,753	$ 418	9
Expense	2,966	3,614	3,471	(143)	(4)
	$ 1,505	$ 1,557	$ 1,282	$ 275	21
CPA Exam					
Revenue	$ 2,639	$ 2,565	$ 2,578	$ (13)	(1)
Expense	3,335	3,706	3,656	(50)	(1)
	$ (696)	$(1,141)	$(1,078)	$ (63)	6

BALANCE SHEET
MARCH 31

	1985	1984
Assets:		
Cash	$ 401,947	$ 400,433
Marketable securities (1)		
(1985—M—$25,073,708)	24,692,083	23,212,240
Accounts receivable	5,664,863	3,019,136
Inventories	3,143,972	2,218,822
Deferred authorship costs and prepaid expenses	2,066,732	1,080,629
Furniture, equipment, and leasehold improvements, net	4,722,883	4,127,261
	$40,692,480	$34,058,521
Liabilities and Fund Balance:		
Liabilities:		
Accounts payable and other liabilities	$ 7,378,776	$ 5,019,715
Accrued taxes	655,465	490,832
Advance dues	6,957,608	5,985,738
Unearned subscriptions, advertising and fees	5,353,978	2,994,060
	20,345,827	14,490,345
Fund balances:		
General fund	20,346,653	19,568,176
	$40,692,480	$34,058,521

(1) Marketable securities are stated at the lower of aggregate cost (C) or market (M).

CHANGES IN FUND BALANCES
FISCAL 1984-85
EIGHT MONTHS ENDED MARCH 31

	1984-85	1983-84
General Fund:		
Fund balance, beginning of period	$18,822,363	$15,025,773
Excess of revenue over expenses	1,524,290	4,542,403
	$20,346,653	$19,568,176

SEC PRACTICE SECTION
Balance Sheet
March 31

	1985	1984
Assets:		
Cash	$ 179,129	$ 82,651
Marketable securities (1) (1985 - M - $1,262,257)	1,253,557	1,319,000
Dues receivable	299,934	86,318
Accrued interest and other receivables	28,841	5,775
	$1,761,461	$1,493,744
Liabilities and Fund Balances:		
Liabilities:		
Accounts payable	$ 1,381	$ 390
Due to general fund	105,078	126,021
Unearned dues	913,117	698,434
Other liabilities	17,133	16,230
Due to PCPS	-	130
	$1,036,709	$ 841,205
Fund balances	724,752	652,539
	$1,761,461	$1,493,744

(1)Marketable securities are stated at the lower of aggregate cost or market. The designation M is for market, C for cost.

SEC PRACTICE SECTION
Changes in Fund Balances
Eight Months Ended March 31

		1985		1984
Fund balances, beginning of period		$ 691,114		$ 636,303
Revenue:				
Dues	$ 697,264		$565,778	
Investment and miscellaneous income	64,141		46,701	
	761,405		612,479	
Expenses:				
Public Oversight Board:				
Salaries	267,819		278,634	
Fees	114,156		115,833	
Other	225,025		163,669	
	607,000		558,136	
Member directory	17,995		17,142	
Adjustment of peer review billings	2,470		2,199	
Legal fees	12,444		12,760	
Investment management fees	2,214		1,564	
Public relations	87,304		-	
Communications program	1,828		3,659	
Other	271		783	
	731,526		596,243	
Excess of revenue over expenses		29,879		16,236
Gain on sale of securities in fund balance		3,759		-
Net increase in fund balance		33,638		16,236
Fund balances, end of period		$ 724,752		$652,539

PRIVATE COMPANIES PRACTICE SECTION
Balance Sheet
March 31

	1985	1984
Assets:		
Cash	$ 40,027	$ 18,507
Marketable securities (1)(2) (1985 - M - $439,532)	434,779	449,000
Dues receivable	13,401	10,628
Accrued interest and other receivables	11,961	3,330
Due from SECPS	-	130
	$500,168	$481,595
Liabilities and Fund Balances:		
Liabilities:		
Accounts payable	$ 767	$ 5,093
Due to general fund	44,586	1,125
Unearned dues	59,179	61,489
	104,532	67,707
Fund balances	395,636	413,888
	$500,168	$481,595

(1) Marketable securities are stated at the lower of aggregate cost or market. The designation M is for market, C for cost.

(2) Information concerning the market value for marketable securities was not provided on the March 1984 financial statements.

PRIVATE COMPANIES PRACTICE SECTION
Changes in Fund Balances
Eight Months Ended March 31

		1985		1984
Fund balances, beginning of period		$440,525		$369,429
Revenue:				
Dues	$ 52,299		$ 55,749	
Investment and miscellaneous income	32,071		41,088	
	84,370		96,837	
Expenses:				
Member directory	18,116		17,472	
Bad debts expense	5,644		-	
Adjustment of peer review billings	1,729		6,963	
Communications program	2,320		10,564	
Peer review evaluation panel	10,815		7,050	
Newsletter	6,808		7,500	
Public relations	84,363		-	
Other	1,388		2,829	
	131,183		52,378	
Excess (deficiency) of revenue over expenses		(46,813)		44,459
Gain on sale of securities		1,924		-
Net increase (decrease) in fund balance		(44,889)		44,459
Fund balances, end of period		$395,636		$413,888

AMERICAN INSTITUTE OF CERTIFIED PUBLIC
ACCOUNTANTS FOUNDATION
Balance Sheet
March 31

	1985	1984
Assets:		
Cash	$ 14,516	$ 19,727
Marketable securities (1)		
(1985 - M - $1,803,647)	1,778,263	814,908
Pledges receivable	183,333	183,333
Accrued interest and other receivables	37,748	16,285
	$2,013,860	$1,034,253
Liabilities and Fund Balances:		
Liabilities:		
Scholarship payable	$ -	$ -
Accounts payable	17,176	856
	17,176	856
Fund balances:		
General (3)	21,776	108,422
Library (2)	879,371	126,920
John L. Carey Scholarship Fund	263,267	164,189
Accounting Education Fund for		
Disadvantaged Students	821,469	633,866
E. W. Sells Fund (2)	10,801	-
	1,996,684	1,033,397
	$2,013,860	$1,034,253

(1) Marketable securities are stated at the lower of aggregate cost or market. The designation M is for market, C for cost.

(2) In May 1984, the AICPA consolidated its Endowment Fund with the Foundation's Library Fund and transferred control of the Elijah Watts Sells Fund to the Foundation.

(3) In September 1984, the Trustees of the Foundation approved transfer of $100,000 from the General Fund to the Accounting Education Fund for Disadvantaged Students.

AMERICAN INSTITUTE OF CERTIFIED PUBLIC
ACCOUNTANTS FOUNDATION
Changes in Fund Balances
Eight Months Ended March 31

	1985	1984
Fund balances, beginning of period	$1,663,613	$ 696,190
Revenue:		
Contributions:		
Accounting Education Fund for Disadvantaged Students	210,894	220,753
General Fund - Estate John W. Snider	-	4
John L. Carey Scholarship Fund	42,771	51,429
Elijah Watts Sells Fund	12,000	-
Investment and miscellaneous income	117,152	43,711
Expenses:	382,817	315,897
Accounting Education Fund for Disadvantaged Students (Grants and Scholarships)	60,625	55,247
John L. Carey Scholarship Fund (Scholarships)	2,000	2,000
Contribution to AICPA Library (Endowment Fund)	65,614	-
Elijah Watts Sells awards	2,703	-
Investment management fees and other expenses	4,092	1,428
	135,034	58,675
Excess of revenue over expenses	247,783	257,222
Gain on sale of securities	85,288	79,985
Net increase in fund balances	333,071	337,207
Fund balances, end of period	$1,996,684	$1,033,397

AICPA BENEVOLENT FUND, INC.
Balance Sheet
March 31

	1985	1984
Assets:		
Cash	$ 30,036	$ 22,731
Marketable Securities (1) (1985 - M-$1,387,446)	1,357,888	1,089,810
Notes and mortgages receivable (net of allowance for doubtful collections (1985, $48,819; 1984, $51,302)	114,757	80,272
Accrued interest and other receivables	29,345	25,245
	$1,532,026	$1,218,058
Liabilities and Fund Balances:		
Accounts payable	$ 1,311	$ 1,030
Fund balances	1,530,715	1,217,028
	$1,532,026	$1,218,058

(1) Marketable securities are stated at the lower of aggregate cost or market. The designation M is for market, C for cost.

AIPCA BENEVOLENT FUND, INC.
Changes in Fund Balances
Eight Months Ended March 31

	1985	1984
Fund balances, beginning of period	$1,259,979	$1,094,515
Revenue:		
Contributions	200,455	104,600
Investment income	75,587	67,346
	276,042	171,946
Expenses:		
Assistance to members and families	96,780	87,731
Other	4,161	21,083
	100,941	108,814
Excess of revenue over expenses	175,101	63,132
Gain on sale of securities	95,635	59,381
Net increase in fund balances	270,736	122,513
Fund balances, end of period	$1,530,715	$1,217,028

ACCOUNTING RESEARCH ASSOCIATION, INC.
Balance Sheet
March 31

	1985	1984
Assets:		
Cash	$ 677,520	$ 85,388
Marketable securities (1) (1985 - M - $735,254)	728,384	1,036,000
Dues receivable	986,700	923,750
Accrued interest and other receivables	26,752	9,708
Deferred FASB subscription service	135,585	151,156
Prepaid Contribution - FAF/GASB	-	10,000
	$2,554,941	$2,216,002
Liabilities and Fund Balances:		
Liabilities:		
Accounts payable	$ 200,288	$ 201,945
Unearned advanced dues	1,430,151	1,386,188
	1,630,439	1,588,133
Fund balances	924,502	627,869
	$2,554,941	$2,216,002

(1) Marketable securities are stated at the lower of aggregate cost or market. The designation M is for Market, C for Cost.

ACCOUNTING RESEARCH ASSOCIATION, INC.
Changes in Fund Balances
Eight Months Ended March 31

	1985	1984
Fund balances, beginning of period	$ 305,359	$ 313,895
Revenue:		
Dues - ARA	1,255,880	1,223,024
Contributions-GASB	209,098	-
Investment income	52,595	48,440
	1,517,573	1,271,464
Expenses:		
Payment to Financial Accounting Foundation	705,107	784,040
Stationery, supplies and other expenses	2,712	5,857
FASB subscription services	122,522	135,838
Investment management fees	1,289	751
Membership promotion expense	70,216	31,004
	901,846	957,490
Excess of revenue over expenses	615,727	313,974
Gain on sale of securities	3,416	-
Net increase in fund balances	619,143	313,974
Fund balances, end of period	$ 924,502	$ 627,869

AICPA

American Institute of Certified Public Accountants
1211 Avenue of the Americas, New York, New York 10036-8775 (212) 575-6200
Telex: 70-3396

April 30, 1985

TO THE MEMBERS OF COUNCIL OF
THE AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF THE TREASURER

SUMMARY

For the eight months ended March 31, 1985, the Institute's revenue exceeded expense by $1,526,000. This was $187,000 more than had been anticipated in the budget. Expenses were $122,000 less than budget and revenue exceeded budget by $65,000.

The major factors that contributed to the favorable result are:

- Continued growth in advertising revenue.
- Underestimate of dues revenue, particularly for the Tax Division.
- Better than anticipated investment performance.
- An unusually high number of unfilled positions caused by improvements in the employee appraisal process.

Fiscal 1984-85 was budgeted to produce an excess of revenue over expenses of $1,012,000. Currently, it appears the Institute will report an excess of about $1,600,000 for the fiscal year.

Major budget variations for the eight months were:

Revenue Over (Under) Budget

Investments		$ 390,000
Advertising		382,000
Publications sales		273,000
Tax Division dues		241,000
Membership dues		128,000
Continuing Professional Education		(1,081,000)
Subscriptions		(189,000)
Conferences		(116,000)
Other, net		37,000
		$ 65,000

Expenses Under (Over) Budget

Personnel costs	$ 246,000	
Commercial services	223,000	
Meetings and travel	142,000	
Salaries	118,000	
Subscriptions cost of sales	92,000	
Publications cost of sales	(244,000)	
Professional services	(198,000)	
Recruiting	(169,000)	
Postage and shipping	(156,000)	
Other, net	68,000	122,000
Variation from Budgeted Net Income		$ 187,000

REVENUE

A. Investments - $390,000

As part of a new investments program, the Institute engaged two new advisors for long-term investments. Existing equity investments were liquidated in order to provide the new advisors with a clean start. Sale of equity investments resulted in a profit of $375,000.

B. Advertising - $382,000

Demand for advertising space in The Journal of Accountancy continues to exceed what was thought to be an optimistic budget estimate. Use of full color advertising is also in excess of budget. Sales of advertising in The Tax Adviser contributed to the favorable variation.

C. Publications Sales - $273,000

Major components of this variation are:

Professional standards (paperback)	$220,000 (1)
Accounting Trends and Techniques	85,000 (2)
Publication slippage	(96,000) (3)
Other, net	64,000
	$273,000

(1) Although the budget provided a slight increase in paperback sales over the previous year, the actual sales increase was greater than anticipated. It appears that the increase in the subscription price for the FASB Standards looseleaf service caused a number of subscribers to decide they could make do with the paperback version (see item G).

(2) The budget projected sales of the 1984 edition of Accounting Trends & Techniques equal to those of the 1983 edition. To date, sales of the 1984 edition are 14,280 units, compared to 11,883 units for the 1983 edition, an increase of 20%.

(3) At the end of eight months, 19 budgeted publications are behind schedule. This schedule slippage exceeds the budget provision, $132,000; by $96,000.

D. Tax Division Dues - $241,000

The number of members who joined the Tax Division exceeds budget estimates. The budget was based upon 8,600 members, but actual membership is over 14,500.

E. Membership Dues - $128,000

The number of new and reinstated members exceeds the budget by over 2,300.

F. Continuing Professional Education - $(1,081,000)

Major components of this variation are:

AID programs	$(1,062,000)	(1)
Seminar programs	(440,000)	(2)
Individual study programs	162,000	(3)
Video-assisted programs	135,000	(4)
National conferences	97,000	(5)
Other , net	27,000	
	$(1,081,000)	

(1) This unfavorable variation was primarily caused by higher than anticipated cancellation rates and lower than anticipated attendance at the courses that were presented. The cancellation rate was 22%.

(2) Attendance at seminars has been lower than anticipated. In addition, a price reduction was made after the budget was prepared.

(3) A speed learning course and a new course on the Tax Reform Act of 1984 generated $359,000 in unanticipated revenue. This was offset by a decline of $197,000 in the sale of other courses.

(4) A video-assisted course on the Tax Reform Act of 1984 and courses developed by an outside supplier combined to generate $300,000 in unbudgeted sales. This was offset by a $165,000 decline in sales of AICPA-developed material.

(5) An increase in conference fees and a modest increase in attendance caused this favorable variation.

G. Subscriptions - $(189,000)

The cancellation rate for professional standards subscriptions was higher than anticipated and the number of new subscriptions was below budget.

H. Conferences - $(116,000)

Attendance at the annual meeting was below expectations and presentations (5) of the new Controllership Conference have been delayed to fiscal 1985-86.

EXPENSE

I. Personnel Costs - $246,000

Several factors produced this favorable variance:

(1) An unusually high number of unfilled staff positions.

(2) Anticipated rate increases for medical insurance did not materialize.

(3) Pension fund investment performance exceeded expectations.

J. Commercial Services $223,000

This favorable variation is largely the result of a delay in implementation of some major projects that were approved for this fiscal year.

K. Meetings and Travel - $142,000

This favorable variation is primarily a matter of timing. The budget provides for member travel expenses when the meetings are held, but actual requests for reimbursement tend to lag behind by two or three weeks. A less than anticipated level of activity in dealing with RICO legislation was also a factor. This favorable variation will probably not carry through to year end.

L. Salaries - $118,000

This favorable variance was caused by the larger than anticipated number of unfilled positions. Presently, many of the vacant positions are being filled by temporary employees.

M. Subscriptions - Cost of Sales - $92,000

A higher than anticipated cancellation rate for the Professional Standards, Technical Practice Aids, and Audit and Accounting Manual subscriptions caused this favorable variation. A delay in publication of the "Second Quarter Accountants' Index Supplement 1984," was also a factor.

N. Publications - Cost of Sales - $(244,000)

Components of this variation are:

Professional standards (paperbacks)	$(103,000)(1)
Obsolescence writeoffs	(42,000)(2)
Art work and typography	(40,000)(3)
Other publications	(27,000)(4)
Other, net	(32,000)
	$(244,000)

(1) The sales of professional standards paperbacks exceeded budget forecasts.

(2) Based on actual experience, the monthly provision for obsolescence is larger than the budgeted provision.

(3) Use of outside sources for art work and typography is greater than the amounts estimated when the budget was developed.

(4) Sales of Auditing & EDP and Statements on Auditing Standards exceed budget.

O. Professional Services - $(198,000)

Legal fees for amicus matters, pension plan studies, tax refund filings, sales tax matters, and Washington activities were higher than budget. This unfavorable variation was offset by lower than anticipated RICO activities.

P. Recruiting - $(169,000)

Recruiting expenses were higher than budget because of the number of unfilled positions. In addition, executive search firms are assisting in efforts to fill several key positions.

Q. Postage and Shipping - $(156,000)

Components of this variation are:

Delays and changes in plans	$ 126,000	(1)
Continuing Professional Education	(89,000)	(2)
Tax Division mailings	(76,000)	(3)
Journal of Accountancy	(70,000)	(4)
SAS #49	(37,000)	(5)
Other, net	(10,000)	
	$(156,000)	

(1) Several mailings have been delayed. This created a timing variance of $67,000. Shipping costs for publications and CPE examination material are below budget by $39,000. One issue of the CPA Letter was not published, a saving of $9,000. Costs of distributing the annual report were reduced by $11,000.

(2) Delays in the production of course material during 1984 created the need to use air shipments to meet presentation deadlines, causing $45,000 in additional expense. CPE promotional mailings were higher than anticipated by $44,000.

(3) Since Tax Division membership is far in excess of budget estimates, the cost of mailing material to members also exceeds budget.

(4) In order to accommodate an increased volume of advertising, the page count for the Journal of Accountancy was increased beyond the budget provision. The increased weight caused postage costs to exceed budget.

(5) SAS #49 was not provided for in the 1984-85 budget.

If you have questions about the financial statements, please feel free to talk with Don Adams or me at any time during the meeting.

Respectfully submitted,

Don J. Summa

DON J. SUMMA
Treasurer

DJS:er