MAJOR PROGRAMS:
The Institute:
• Undertakes recruitment efforts to attract highly qualified individuals into the profession and position
the profession as offering diversity in work and career paths.
• Represents the profession nationally in dealing with rule-making, standard-setting and legislative
bodies, public interest groups, state CPA societies and other professional organizations.
• Promotes outstanding academic programs, emphasizes teaching quality and undertakes minority
educational initiatives.
• Prepares and grades the Uniform CPA Examination and encourages efforts to adopt uniform, high-
level requirements governing the issuance of the CPA certificate.
• Supports the enactment of the 150-hour educational requirement as a prerequisite to licensing, and
pursues efforts at international reciprocity.
• Promulgates standards, sets requirements for, and assists members in the continuous improvement
of professional and ethical conduct, performance and expertise.
• Develops measures to continually improve the financial reporting system and detect fraud.
• Evaluates international, national and local issues and trends, tracks and analyzes threats and opportu-
nities for the profession, and provides a systematic and updated plan for the future of the Institute
and profession.
• Operates comprehensive Continuing Professional Education (CPE) programs for CPAs.
• Undertakes a proactive communications program to inform regulators, legislators, the public, and
others of the varied roles and high-quality functions of CPAs in society.

INTERNATIONAL ACTIVITIES:
The AICPA is a charter member of the International Federation of Accountants whose goal is to
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LEADERSHIP:
The Chair of the AICPA Board of Directors is elected annually from the membership and serves a
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Barry C. Melancon, CPA, is President and Chief Executive Officer of the AICPA. He provides overall
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The AICPA Board of Directors acts as the executive committee for the governing Council. The
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Columbia, Puerto Rico, the Virgin Islands and Guam.

OFFICERS 1995-96:
Robert Mednick, Chair... Arthur Andersen, L.L.P., 69 W. Washington Street, Chicago,
IL 60602-3094 (312) 507–2235
Stuart Kessler, Vice Chair... Goldstein, Golub, Kessler & Company, P.C., 1185 Avenue of the
Americas, New York, NY 10036–2602 (212) 372–1304.
Barry C. Melancon, President and CEO... American Institute of CPAs, 1211 Avenue of the Americas,
New York, NY 10036–8775 (212) 596–6001
Richard I. Miller, General Counsel/Secretary... American Institute of CPAs, 1211 Avenue of the
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Frank J. Katusak, Executive Administrator to the President... American Institute of CPAs,
1211 Avenue of the Americas, New York, NY 10036–8775 (212) 596–6130

1211 Avenue of the Americas
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Fax (212) 596–6213

Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311–3881
(201) 938–3000 (212) 318–0500
Fax (201) 938–3329

1455 Pennsylvania Avenue, NW
Washington, DC 20004–1061
(202) 737–6500
Fax (202) 636–4512
HISTORY:
The American Institute of Certified Public Accountants (AICPA) was founded in 1887. This significant milestone established accountancy as a profession distinguished by rigorous educational requirements, high professional standards, a strict code of professional ethics, a licensing status, and a commitment to serving the public interest.

The AICPA is the national professional organization of certified public accountants in the United States. The Institute currently numbers more than 328,000 members in public practice, industry, government and education. The AICPA maintains three offices and a total staff of 700 which includes a national headquarters in New York City and offices in Washington, DC, and Jersey City, NJ.

MISSION STATEMENT:
The American Institute of Certified Public Accountants is the national, professional organization for all Certified Public Accountants. Its mission is to provide members with the resources, information, and leadership that enable them to provide valuable services in the highest professional manner to benefit the public as well as employers and clients.

In fulfilling its mission, the AICPA works with state CPA organizations and gives priority to those areas where public reliance on CPA skills is most significant.

OBJECTIVES:
To achieve its mission, the Institute:

Advocacy
• Serves as the national representative of CPAs before governments, regulatory bodies and other organizations in protecting and promoting members’ interests.

Certification and Licensing
• Seeks the highest possible level of uniform certification and licensing standards and promotes and protects the CPA designation.

Communications
• Promotes public awareness and confidence in the integrity, objectivity, competence and professionalism of CPAs and monitors the needs and views of CPAs.

Recruiting and Education
• Encourages highly qualified individuals to become CPAs and supports the development of outstanding academic programs.

Standards and Performance
• Establishes professional standards; assists members in continually improving their professional conduct, performance, and expertise; and monitors such performance to enforce current standards and requirements.
MAJOR PROGRAMS:
The Institute:
- Undertakes recruitment efforts to attract highly qualified individuals into the profession and position the profession as offering diversity in work and career paths.
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- Operates comprehensive Continuing Professional Education (CPE) programs for CPAs.
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**AICPA MEMBERSHIP**

*Sources and occupations of AICPA membership*
*(Total AICPA membership as of July 31, 1996 was more than 328,000)*

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<td>24.8%</td>
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<td>Firms with 10 or more members*</td>
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<td>16.4%</td>
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<td>Members in 25 largest firms</td>
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<td>23.8%</td>
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<td>19.9%</td>
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*Excludes members in 25 largest firms*
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2 The Year in Brief

3 Message for AICPA Members

8 Sources and Occupations of AICPA Membership

9 Management’s Discussion and Analysis

10 Management’s Responsibilities for Financial Statements and the Internal Control System

11 Reports of Independent Public Accountants

12 Financial Statements

15 Notes to Financial Statements
THE YEAR IN BRIEF

- AICPA Chair Ronald S. Cohen focuses the Institute on helping members adapt to a new professional era marked by increased outside competition, client demands for a wider variety of services and growing technological complexity.
- The AICPA implements a major organizational reengineering, adopting a team-based management model.
- Cross-functional teams are established among Institute staff to research and address the needs of specific member segments.
- The AICPA-sponsored Securities Litigation Reform Bill is signed into law, protecting the CPA profession against frivolous lawsuits and creating a safe harbor for predictive statements.
- The AICPA helps stop efforts in Congress to subject tax-return preparers to double civil penalties.
- The Special Committee on Regulation and Structure of the Profession continues its research into effective regulation of the profession and is joined by the leadership of the National Association of State Boards of Accountancy (NASBA) to work as a joint committee.
- The Special Committee on Assurance Services redefines assurance services as it proceeds with its examination and development of specific, unique value-added services for the future of the CPA profession.
- An independent study on the results of the first phase of the AICPA image enhancement campaign indicates a measurable positive impact on the overall perception of the CPA among key decision makers.
- The image enhancement campaign’s television commercial, “Pins,” is named one of the best new commercials in the United States by Adweek. It is also awarded a Best of Broadcasting award by Adweek and the New England Broadcasting Association for best animated graphics in a TV commercial.
- The AICPA Center for Excellence in Financial Management, designed to cultivate recognition of the Institute and the CPA as the experts in the discipline of financial management, is approved.
- Operation Access, a major, Institute-wide technology plan centered around a single, dynamic database and supporting a “one-stop shopping” concept that will encompass all AICPA resources, products and services, is undertaken.
- AICPA Online, the Institute’s home page on the Internet’s World Wide Web, is introduced.
- The Institute inaugurates a Member Visitations Program whereby AICPA staff members pay personal visits to members in the workplace.
- A special Process Improvement Projects Team examines all Institute operations for efficient utilization of skills and resources, elimination of duplication, and enhancement of member service.
- The special Tax Division task force set up to study the implications of alternative tax systems issues its report, which is also published as the first AICPA book to be introduced into the consumer market.
- Room Zoom: The CPA SourceDisc, a new CD-ROM product that provides information on the CPA profession to recruit students, is released.
- An alliance between the AICPA and the Practitioners Publishing Company (PPC) yields a single, comprehensive CD-ROM product offering professional standards, accounting and auditing guides, and technical practice aids.
- The Institute’s 24-hour fax hotline is enhanced, offering an even wider variety of AICPA and other professional documents to members.
- Beta Alpha Psi, the national fraternity for accounting students, forms an alliance with the AICPA.
- The Institute completes a year of ever-increasing member service with no dues increase.
- The AICPA adds two new affinity programs for members, offering discounts on Research Institute of America’s (RIA) tax research materials and Pitney Bowes’ mailing and production equipment.
MESSAGE FOR AICPA MEMBERS

The CPA profession is at a crossroads of historic proportion. New competitors are rushing to offer traditional CPA services at the same time clients and employers expect CPAs to provide more services than ever before. Meanwhile, technology is revolutionizing how we work and what we deliver. In short, it's a whole new world of business for the CPA. The future success, indeed survival, of the CPA profession requires nothing less than making change a way of business.

The American Institute of Certified Public Accountants is spearheading change on behalf of the profession. We've revamped our organizational structure to maximize member service. We've accelerated efforts to help members understand and adapt to the new business environment. And, we've made technology a top priority, both for the Institute and for our members, their clients and employers.

THE NEW AICPA

To lead the profession in this time of rapid-fire change, the AICPA reorganized its management structure this year, adopting a team-based model. Responding effectively to the new environment requires innovative thinking, quick decision-making, maximum flexibility and rapid implementation — all hallmarks of the team environment.

The new structure flattens management lines and empowers staff to offer solutions and make quick, effective decisions. Focused on adding value to member services, teams can take projects from idea to implementation, requiring as few layers of approval as possible. A 13-percent reduction in management positions has resulted.

Operationally, the AICPA is now organized along functional lines into six areas — Technical Services, Marketing, Product & Organizational Development, Operations & Information Technology, Public Affairs; Finance; and the office of the General Counsel. The new structure better equips the Institute to become the technology, marketing and performance-driven advocacy organization today's members need us to be.

Cross-functional teams, another feature of the new structure, cut across departmental lines to zero in on the needs of specific segments of our members — business and industry, government, education, younger CPAs and retirees, and public practice in firms of all sizes — as well as those of the accounting associations and state CPA societies. These teams tap staff knowledge and skills from all areas of the Institute to research, analyze and help address specific member needs.

THE NEW CPA

To help members gear up for the future of the profession, the AICPA continues to examine the new world in which CPAs must do business. We analyze the marketplace, identify new business opportunities, determine what new skills are needed, and offer information, training and other support to help members compete.

Identifying opportunities to deliver relevant, value-added services unique to the CPA is the mission of the AICPA Special Committee on Assurance Services. The Special Committee has defined a new, expanded “assurance” function for the CPA — “independent professional services that improve the quality of information, or its context, for decision makers.” The Committee’s work will be made available on AICPA Online, the Institute’s Web site on the Internet, and in targeted executive summaries to members, state CPA societies and other interested groups.

Aligning public perception with the new CPA’s role in the expanding universe of financial services is the objective of the AICPA’s image enhancement campaign. The print, television and radio advertisements bearing the slogan, “The CPA. Never Underestimate The Value,” spotlight the CPA’s unique expertise in several financial services areas. The first, six-month phase is now complete and has achieved measurable results. An independent survey conducted by a national polling organization showed a marked increase in the public recognition of CPAs’ qualifications to perform a wide array of nontraditional business and financial planning functions. The overall public perception of the CPA also improved dramatically.

To position the CPA as the professional of choice in financial management, the AICPA is launching the Center for Excellence in Financial Management. The Center is to be a focal point for recognition of the Institute and the CPA as the experts in financial management, in addition to more traditional CPA disciplines such as financial accounting, reporting and auditing.

In the current regulatory environment, redefining the CPA profession also means taking responsibility for regulating our activities and structuring our work. The AICPA’s Special Committee on Regulation and Structure of the Profession con-
continues to examine how to regulate ourselves more effectively, balancing public interest and market demands. A subgroup of the Special Committee has joined with the leadership of the National Association of State Boards of Accountancy (NASBA) to form a joint committee to study the issue.

Among the ever-increasing challenges to the profession’s regulatory structure is a lawsuit between the Florida State Board of Accountancy and American Express Tax and Business Services. The AICPA continues to work with the state board and has filed amicus briefs in support of the position that CPAs practicing public accounting must do so in firms primarily owned by CPAs. The outcome of this matter will significantly influence the way the CPA profession will be structured in years to come.

Regarding the standards we set for continuing education, the profession made a major stride toward simplification this year. The Harmonization Task Force of the CPE Standards Subcommittee made changes to the AICPA’s CPE standards to make them consistent with NASBA standards. The objective was to ensure consistent quality, eliminate differences and reduce administrative efforts.

To bring education in line with the new business environment, the Institute’s Academic and Career Development Executive Committee recently developed new strategic plans. Focused on bringing technology into the classroom, preparing the student for a business advisory role and integrating accounting with business issues, the plan seeks to close an “ever-widening gap between education and practice.” The AICPA Board of Directors also has discussed revising the substantive areas of the CPA Examination, testing business consulting and information technology along with accounting and the attest function.

CHANGING WITH TECHNOLOGY

Competing in the new environment demands being up to speed technologically. At the Institute, we’re developing the types of electronic-based services that will help members meet the demands of the new marketplace.

Last February, the AICPA launched Operation Access, a major, Institute-wide technology plan. The plan’s backbone is a single database that will allow us to collect more comprehensive and relevant member information. Members will benefit from a “one-stop shopping” concept for all AICPA resources, products and services. With a single phone call, and usually through a single individual, members will complete all of their Institute business, including ordering a product, enrolling in a conference or CPE course, registering a complaint or complaint, updating their member records, and accessing an ever-increasing array of member services. Also, having additional information about our members will enable us to target more precisely programs and products to interested members.

As a sign of the times, the Institute has launched AICPA Online, our own home page on the Internet’s World Wide Web. At the site, at http://www.aicpa.org, members can access information about the AICPA and member privileges, AICPA publications, news about the CPA profession, descriptions of AICPA products and services, events and conferences, exposure drafts, and even software support. AICPA Online also brings members related resources such as information on the state CPA societies and research links to firms, professional organizations and Internet search tools.

To help members keep up with client demands, the AICPA rolled out its ATB for Window™ 1.2 software program for preparing financial statements. The program mirrors the way CPAs prepare manual trial balances and produces
presentation-quality financials. Already the market leader in accountant's trial balance software, ATB for Windows™1.2 also interfaces with general ledger programs and tax-preparation software.

Applying technology to the profession's recruiting efforts, the Institute introduced Room Zoom: The CPA SourceDisc. Employing CD-ROM technology, the disc offers a full spectrum of information about the CPA designation — including educational requirements, licensing procedures, and professional development and career opportunities — in a fully interactive format. The goal is to attract top-notch high-school and college students to the CPA profession. It is believed to be the first use of such technology specifically to recruit students into a profession.

Bringing interactivity to research and practical guidance materials, the Institute has licensed some professional literature to the Practitioners Publishing Company (PPC). A new CD-ROM product will integrate the Institute's Professional Standards, Audit and Accounting Guides, and Technical Practice Aids with the PPC's accounting and auditing engagement guides. Also, the Institute's Integrated Practice System (IPS) Engagement Manuals have been merged with those of PPC.

To minimize cost while maximizing member participation, the AICPA is testing in-house video conferencing for committee and other meetings. If successful, the technology will be installed in centers set up in airline-hub cities throughout the country, saving travel time and money for members participating in committee meetings and other Institute business.

LEVERAGING LEGISLATION

Throughout the year, the AICPA continued to lobby on behalf of the profession in Congress and the state legislatures, with several major successes.

Culminating many months of hard work at the Institute in collaboration with the state CPA societies, national firms and the business community, the Securities Litigation Reform Bill is now law. The measure protects the CPA profession against frivolous class action securities lawsuits. Peripheral defendants, like the independent auditor, are required to pay only their fair share of a judgment based on a proportionate liability standard; no longer can defendants simply seek "deep pockets" for recovery. The legislation also creates a new safe harbor for predictive statements to enable CPAs to project financial results in the course of their work.

The AICPA has also succeeded in warding off a move in Congress to subject tax-return preparers to double civil penalties.

A second Taxpayer Bill of Rights, which the Institute has long supported and aggressively worked for, also was signed into law this year. Among the new protections is a longer interest-free period in some circumstances for a delinquent tax payment; acknowledgment of the use of private, non-postal delivery services for documenting submission of tax-related documents; permission to switch to joint married filing status without first paying all tax liability; and a higher ceiling for damages recoverable by taxpayers for "reckless" IRS collection action.

Also, the movement toward adoption of 150-hour education legislation continues to progress in state legislatures across the nation. As of July 31, 1996, thirty-six jurisdictions have adopted the measure.

SERVING MEMBERS

With the benefit of the hands-on, targeted research of our member segment teams, the AICPA is in the best position to date to understand thoroughly and address precisely the unique needs of members in all professional areas. Based on team findings and recommendations, Institute resources, products and services may be added, changed or dropped to cater to the specific needs of members.

As part of that effort, teams are reaching out to members in many ways — from establishing direct contact to collaborating with AICPA committees to conducting in-depth member interviews. This year, in addition to our Member Outreach initiative, we've added a new Member Visitaton Program. Visits are made to members in their offices by AICPA staff members as they travel on Institute business. Approximately 200 visits by almost 100 staff members were made this year. These interviews call members' opinions on professional and competitive issues facing the profession, the impact of technology on their work, and AICPA effectiveness in serving them. The objective is to get the information we need to ready ourselves and our members for the critical years ahead.

In our ongoing effort to reach out more to members in business and industry, the Institute has initiated a new program to
help communicate their recruiting needs to accounting educators. Through field visits set up in conjunction with regional meetings of the American Accounting Association, educators meet members in the workplace, earning four hours of CPE credit in the process.

As always, the AICPA continued its outreach to students to bring youth from all backgrounds into the profession. This year, the AICPA Foundation adopted an expanded mission statement, taking a more active role than ever in its 74-year history to provide funding to advance the CPA profession through education and related activities. The Foundation also approved seed funding to encourage more state society Accounting and Career Awareness Programs and widened its scholarship and fellowship offerings.

On a new front, the Institute formed an alliance this year with Beta Alpha Psi, the national accounting fraternity, which has moved its national headquarters to the AICPA offices in New York. Beta Alpha Psi has over 290 chapters of honors accounting students at AACSB-accredited universities nationwide. Blending a shared vision on recruiting qualified candidates, the alliance pools resources to augment communications and publications for students, with an emphasis on electronic delivery.

The AICPA also expanded member services over the past year. To make available a wide variety of AICPA and other professional information at a moment’s notice, we have enhanced our 24-hour “fax hotline” for information ranging from comment letters and committee activities to conference information and product catalogs.

To ensure that the CPA profession makes a significant contribution to the ongoing tax restructuring debate in Congress, the AICPA Tax Division issued a comprehensive study entitled Flat Taxes and Consumption Taxes: A Guide to the Debate. That study was also published as an AICPA book for the consumer market — America’s Tax Revolution — How It Will Affect You. Also, a special telephone hotline has been set up to provide updates on the pending flat and consumption tax proposals.

Two new “affinity” programs, which employ the joint purchasing power of members to yield discounts and other perks, were added this year. Through the Research Institute of America (RIA), AICPA members can receive a 10-percent discount on the purchase of the company’s popular tax research products and services, or five percent on subscription renewals, and a 30-percent discount on RIA’s Federal Tax Handbook. From the Pitney Bowes company, members can now purchase, lease or rent mailing, weighing, shipping and folding-inserting equipment at special rates.

**CHANGING OUR MINDSETs**

“Change is inevitable” is an aphorism that has taken on new meaning for the CPA. It’s a harsh reality of the new world of business. Today, carrying out the AICPA’s century-old responsibility to our members means putting change to work for the future of the profession. It’s the only way we can survive, no less thrive, as a distinct profession. While the AICPA continues to reach out to members in every way possible, the profession’s future rests in the hands of every individual CPA. We must all make change a way of business.

Ronald S. Cohen, CPA
Chair of the Board

Barry C. Melanson, CPA
President & CEO
1995-96 AICPA Chair Ronald S. Cohen, left, and President & CEO Barry C. Melancon
## Sources and Occupations of AICPA Membership

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<tr>
<td>Retired &amp; Miscellaneous</td>
<td>4.1%</td>
<td>5.4%</td>
<td>7.6%</td>
<td>8.7%</td>
<td>10.3%</td>
<td>11.0%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Membership in Public Practice</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firms with one member</td>
<td>23.1%</td>
<td>25.1%</td>
<td>24.8%</td>
<td>24.3%</td>
<td>23.6%</td>
<td>23.5%</td>
<td>22.9%</td>
</tr>
<tr>
<td>Firms with 2–9 members</td>
<td>34.0%</td>
<td>34.3%</td>
<td>33.6%</td>
<td>34.3%</td>
<td>35.5%</td>
<td>36.5%</td>
<td>36.4%</td>
</tr>
<tr>
<td>Firms with 10 or more members, except the 25 largest firms</td>
<td>15.1%</td>
<td>15.0%</td>
<td>16.4%</td>
<td>17.6%</td>
<td>19.8%</td>
<td>19.9%</td>
<td>20.3%</td>
</tr>
<tr>
<td>25 largest firms</td>
<td>27.8%</td>
<td>25.5%</td>
<td>25.2%</td>
<td>23.8%</td>
<td>21.1%</td>
<td>20.1%</td>
<td>19.9%</td>
</tr>
</tbody>
</table>
The combined financial statements reflect the financial results of the American Institute of Certified Public Accountants, the Division for CPA Firms, the Accounting Research Association, Inc., the AICPA Benevolent Fund, Inc., and the American Institute of Certified Public Accountants Foundation, collectively the "Institute." The presentation of the financial statements has been changed this year to recognize the reporting requirements set forth in Statement of Position 94-3, Reporting of Related Entities by Not-for-Profit Organizations.

This year, the Institute has also adopted the following Statements of Financial Accounting Standards:

- Employers' Accounting for Postretirement Benefits Other Than Pensions (SFAS No. 106)
- Accounting for Contributions Received and Contributions Made (SFAS No. 116)
- Financial Statements of Not-for-Profit Organizations (SFAS No. 117)
- Accounting for Certain Investments Held by Not-for-Profit Organizations (SFAS No. 124).

The 1996 results include a non-cash charge for accounting changes of $4.1 million. This charge reflects the cumulative effect of changes in accounting principles for the following: SFAS No. 106 of $7.5 million, offset by $3.1 million for SFAS No. 124 and $.3 million for SFAS No. 116. Before the cumulative effect of changes in accounting principles, combined revenue exceeded expenses by $6.0 million in 1996 and $6.1 million in 1995. After the effect of such changes, the net result was an increase in combined unrestricted net assets of $1.9 million in 1996.

Revenue in 1996 was $138.1 million. While publication and professional development sales generated lower revenue, investment and sundry income was higher due to favorable market conditions and new and expanding member affinity programs.

Expenses in 1996 were $132.1 million. Costs of the CPA examination increased during the last year due to the additional security required for the nondisclosed format of the examination. In addition, the image enhancement campaign resulted in higher communications and public relations costs. General management costs were essentially flat for the two years.

Total cash and marketable securities at July 31, 1996 and 1995 were $71.0 million and $62.7 million, respectively. The increase of $8.3 million was principally attributable to cash flow from operations of $13.2 million offset by $4.3 million of technology-related capital purchases aimed at repositioning the Institute for success in an information-technology-based world. In addition, the Institute repaid $2.8 million of long-term debt.

During the past year, several new initiatives were commenced and the Institute converted to a team-based environment to better address needs and become more proactive. In addition, the Institute has implemented a continuous process improvement program. Ultimately, all functions, staff activities and external relations are being reviewed in a detailed analysis. During the year ended July 31, 1996, six functional areas underwent this review.

In continuing our commitment to member service and the public interest, as detailed in our Values & Visions Statement, the Institute plans to continue to dedicate resources toward meeting its public commitment while understanding and addressing our constituencies' needs and improving our technology to serve our membership better. We anticipate continued expenditures for technology to support a customer/member service organization.
MANAGEMENT’S RESPONSIBILITIES FOR FINANCIAL STATEMENTS AND THE INTERNAL CONTROL SYSTEM

FINANCIAL STATEMENTS

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

The Board of Directors, operating through its Audit Committee, which is composed entirely of directors who are not officers or employees of the Institute, provides oversight of the financial reporting process and safeguarding of assets against unauthorized acquisition, use or disposition. The Audit Committee annually recommends the appointment of an independent public accountant and submits its recommendation to the Board of Directors, and then to the Council, for approval. The Audit Committee meets with management, the independent public accountants and the internal auditor; approves the overall scope of audit work and related fee arrangements; and reviews audit reports and findings. In addition, the independent public accountants and the internal auditor meet separately with the Audit Committee, without management representatives present, to discuss the results of their audits, the adequacy of the internal control system, the quality of financial reporting and the safeguarding of assets against unauthorized acquisition, use or disposition. These meetings are designed to facilitate private communications between the Audit Committee and both the internal auditor and the independent public accountants.

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

INTERNAL CONTROL SYSTEM

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

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

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

The Institute has assessed its internal control system over financial reporting in relation to criteria described in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Institute believes that, as of July 31, 1996, its system of internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition met those criteria.

J.H. Cohn LLP was also engaged to report separately on the Institute’s assessment of its internal control system over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition. The report of the independent public accountants follows this statement.

Barry C. Melaneon
President & CEO
Eileen C. Miele
Chief Financial Officer
To the Members of the American
Institute of Certified Public Accountants

We have audited the accompanying combined statements
of financial position of the AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS AND RELATED
ORGANIZATIONS as of July 31, 1996 and 1995, and the related
combined statements of activities and cash flows for the years
then ended. These financial statements are the responsibility of
the Institute's management. Our responsibility is to express an
opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally
accepted auditing standards. Those standards require that we
plan and perform the audit to obtain reasonable assurance that
the financial statements are free of material misstatement. An
audit includes examining, on a test basis, evidence supporting
the amounts and disclosures in the financial statements. An
audit also includes assessing the accounting principles used and
significant estimates made by management, as well as evaluat-
ing the overall financial statement presentation. We believe that
our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to
above present fairly, in all material respects, the financial posi-
tion of the American Institute of Certified Public Accountants
and Related Organizations as of July 31, 1996 and 1995, and the
results of their activities and cash flows for the years then ended,
in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, in 1996
the Institute changed its methods of accounting for postretire-
ment benefits other than pensions, investments in marketable
securities and contributions and its method of financial report-
ing and financial statement presentation, including its method
of reporting related organizations.

New York, New York
August 27, 1996

J. N. Cohen LLP

To the Members of the American
Institute of Certified Public Accountants

We have examined management's assertion that the AMERI-
CAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND
RELATED ORGANIZATIONS maintained an effective internal
control system over financial reporting and over safeguarding
of assets against unauthorized acquisition, use or disposition
as of July 31, 1996 included in the accompanying statement
of management's responsibilities for financial statements and
the internal control system.

Our examination was made in accordance with standards
established by the American Institute of Certified Public
Accountants and, accordingly, included obtaining an under-
standing of the internal control system over financial reporting
and over safeguarding of assets against unauthorized acquisi-
tion, use or disposition, testing and evaluating the design and
operating effectiveness of the internal control system, and such
other procedures as we considered necessary in the circum-
stances. We believe that our examination provides a reasonable
basis for our opinion.

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

In our opinion, management's assertion that the American
Institute of Certified Public Accountants and Related
Organizations maintained an effective internal control system
over financial reporting and over safeguarding of assets against
unauthorized acquisition, use or disposition as of July 31, 1996
is fairly stated, in all material respects, based upon criteria estab-
lished in Internal Control — Integrated Framework issued by
the Committee of Sponsoring Organizations of the Treadway
Commission ("COSO").

New York, New York
August 27, 1996

J. N. Cohen LLP
# Financial Statements

**July 31, 1996 and 1995**

**American Institute of Certified Public Accountants and Related Organizations**

## Combined Statements of Financial Position

<table>
<thead>
<tr>
<th></th>
<th>1996 ($000)</th>
<th>1995 ($000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$630</td>
<td>$165</td>
</tr>
<tr>
<td>Marketable securities</td>
<td>70,380</td>
<td>59,390</td>
</tr>
<tr>
<td>Accounts and notes receivable (less an allowance for doubtful accounts: 1996, $1,082,000; 1995, $885,000)</td>
<td>11,896</td>
<td>11,346</td>
</tr>
<tr>
<td>Inventories</td>
<td>2,385</td>
<td>2,283</td>
</tr>
<tr>
<td>Deferred costs and prepaid expenses</td>
<td>3,202</td>
<td>4,054</td>
</tr>
<tr>
<td>Furniture, equipment and household improvements, net</td>
<td>22,850</td>
<td>21,919</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$111,343</strong></td>
<td><strong>$99,157</strong></td>
</tr>
</tbody>
</table>

## Liabilities and Net Assets

### Liabilities:

<table>
<thead>
<tr>
<th></th>
<th>1996 ($000)</th>
<th>1995 ($000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and other liabilities</td>
<td>$14,459</td>
<td>$15,381</td>
</tr>
<tr>
<td>Advance dues</td>
<td>25,903</td>
<td>23,894</td>
</tr>
<tr>
<td>Unearned revenue</td>
<td>12,810</td>
<td>11,400</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>1,200</td>
<td>4,000</td>
</tr>
<tr>
<td>Deferred rent</td>
<td>14,338</td>
<td>12,789</td>
</tr>
<tr>
<td>Deferred employee benefits</td>
<td>11,157</td>
<td>2,128</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>79,867</strong></td>
<td><strong>69,592</strong></td>
</tr>
</tbody>
</table>

### Net Assets:

<table>
<thead>
<tr>
<th></th>
<th>1996 ($000)</th>
<th>1995 ($000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>30,828</td>
<td>28,917</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>648</td>
<td>648</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td><strong>31,476</strong></td>
<td><strong>29,565</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td><strong>$111,343</strong></td>
<td><strong>$99,157</strong></td>
</tr>
</tbody>
</table>

The accompanying notes to financial statements are an integral part of these statements.
## Changes in unrestricted net assets:

<table>
<thead>
<tr>
<th>Revenue and gains:</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dues</td>
<td>$55,536</td>
<td>$55,190</td>
</tr>
<tr>
<td>Publications and software</td>
<td>34,860</td>
<td>37,434</td>
</tr>
<tr>
<td>Professional development</td>
<td>24,953</td>
<td>25,133</td>
</tr>
<tr>
<td>Investment and sundry income</td>
<td>13,418</td>
<td>9,317</td>
</tr>
<tr>
<td>Professional examinations</td>
<td>5,052</td>
<td>7,547</td>
</tr>
<tr>
<td>Contributions</td>
<td>1,323</td>
<td>1,085</td>
</tr>
<tr>
<td><strong>Total unrestricted revenue and gains</strong></td>
<td><strong>138,142</strong></td>
<td><strong>135,706</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Program services:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Publications and software produced for sale</td>
<td>25,308</td>
<td>27,404</td>
</tr>
<tr>
<td>Professional development</td>
<td>25,029</td>
<td>25,266</td>
</tr>
<tr>
<td>Member services:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulation and legislation</td>
<td>14,559</td>
<td>14,472</td>
</tr>
<tr>
<td>Technical</td>
<td>12,419</td>
<td>11,657</td>
</tr>
<tr>
<td>Publications</td>
<td>6,763</td>
<td>6,040</td>
</tr>
<tr>
<td>Other</td>
<td>3,330</td>
<td>2,399</td>
</tr>
<tr>
<td>Professional examinations</td>
<td>8,294</td>
<td>7,418</td>
</tr>
<tr>
<td>Communications and public relations</td>
<td>5,478</td>
<td>4,074</td>
</tr>
<tr>
<td>Support and scholarships</td>
<td>5,372</td>
<td>5,250</td>
</tr>
<tr>
<td>Assistance programs</td>
<td>1,081</td>
<td>1,055</td>
</tr>
<tr>
<td>Supporting activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General management</td>
<td>18,227</td>
<td>18,065</td>
</tr>
<tr>
<td>Organization and membership development</td>
<td>6,203</td>
<td>6,043</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>132,083</td>
<td>129,583</td>
</tr>
</tbody>
</table>

Increase in unrestricted net assets before cumulative effect of changes in accounting principles: 6,089  6,123

Cumulative effect of changes in accounting principles:

- Postretirement benefits: (7,493) —
- Marketable securities: 3,102 —
- Contributions: 243 —
- **Totals**: (4,148) —

Increase in unrestricted net assets: 1,911  6,123

Unrestricted net assets, beginning of year: 28,917  22,794

Unrestricted net assets, end of year: $30,828  $28,917

The accompanying notes to financial statements are an integral part of these statements.
<table>
<thead>
<tr>
<th>Increase (Decrease) in Cash:</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash received from members and customers</td>
<td>$128,455</td>
<td>$131,975</td>
</tr>
<tr>
<td>Interest and dividends received</td>
<td>2,965</td>
<td>2,777</td>
</tr>
<tr>
<td>Cash paid to suppliers, employees and other</td>
<td>(117,789)</td>
<td>(120,539)</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(139)</td>
<td>(290)</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(280)</td>
<td>(144)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>$13,212</td>
<td>$13,779</td>
</tr>
<tr>
<td>Investing Activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments for purchase of equipment</td>
<td>(4,320)</td>
<td>(8,535)</td>
</tr>
<tr>
<td>Payments for purchase of marketable securities</td>
<td>(142,050)</td>
<td>(87,364)</td>
</tr>
<tr>
<td>Proceeds from sale of marketable securities</td>
<td>136,423</td>
<td>83,448</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(9,947)</td>
<td>(12,451)</td>
</tr>
<tr>
<td>Financing Activities — payments of long-term borrowings</td>
<td>(2,800)</td>
<td>(1,300)</td>
</tr>
<tr>
<td>Net increase in cash</td>
<td>465</td>
<td>28</td>
</tr>
<tr>
<td>Cash, beginning of year</td>
<td>165</td>
<td>137</td>
</tr>
<tr>
<td>Cash, end of year</td>
<td>$630</td>
<td>$165</td>
</tr>
</tbody>
</table>

Reconciliation of increase in unrestricted net assets to net cash provided by operating activities:

| Increase in unrestricted net assets | $1,911 | $6,123 |
| Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities: | | |
| Depreciation and amortization: | | |
| Furniture, equipment and household improvements | $3,389 | $3,011 |
| Internal computer systems | 975 | 920 |
| Gain on sale of marketable securities | (3,826) | (606) |
| Amortization of subscription revenue | (246) | (232) |
| Unrealized loss on marketable securities | 1,865 | — |
| Cumulative effect of changes in accounting principles | 4,148 | — |
| Provision for: | | |
| Losses on accounts and notes receivable | 322 | 195 |
| Obsolete inventories | 575 | 732 |
| Deferred rent | 1,259 | 1,781 |
| Deferred employee benefits | 1,790 | 725 |
| Changes in operating assets and liabilities: | | |
| Accounts and notes receivable | (872) | 175 |
| Inventories | (677) | (50) |
| Deferred costs and prepaid expenses | (248) | (209) |
| Accounts payable and other liabilities | (922) | 1,651 |
| Advance dues | 2,377 | (694) |
| Unearned revenue | 1,656 | (33) |
| Deferred rent | 290 | 290 |
| Deferred employee benefits | (284) | — |
| Total adjustments | 11,301 | 7,656 |
| Net cash provided by operating activities | $13,212 | $13,779 |

The accompanying notes to financial statements are an integral part of these statements.
NOTES TO FINANCIAL STATEMENTS
JULY 31, 1996 AND 1995

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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.

The financial statements include the accounts of the American Institute of Certified Public Accountants ("AICPA") and the following related organizations, the Division for CPA Firms ("Division"), the Accounting Research Association, Inc. ("ARA"), the AICPA Benevolent Fund, Inc. ("Benevolent Fund") and the American Institute of Certified Public Accountants Foundation ("Foundation"), which have been combined in accordance with Statement of Position 94-3, Reporting of Related Entities by Not-for-Profit Organizations (SOP 94-3). As required by SOP 94-3, the 1995 financial statements of the AICPA and the related organizations have been restated. As used herein, the "Institute" includes the AICPA and the related organizations.

The AICPA is the national professional organization for all Certified Public Accountants. It provides members with the resources, information and leadership that enables them to provide services in the highest professional manner. The Division, consisting of both the Private Companies Practice Section ("PCPS") and the SEC Practice Section ("SECP/CPH"), strives to improve the quality of accounting and auditing services by CPA firms through an effective peer review and continuing professional education program. The ARA makes an annual best efforts commitment to raise funds for the Financial Accounting Foundation to support the work of the Financial and Governmental Accounting Standards Boards from sources within the accounting profession. The Benevolent Fund provides financial assistance to needy members of the AICPA and their families. The Foundation advances the profession of accountancy and develops and improves accountancy education by providing funds for a number of educational activities in the accountancy field.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Effective August 1, 1995, the Institute adopted Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions (SFAS No. 106). Under SFAS No. 106, an organization is required to accure the projected future cost of providing post-retirement benefits during the period that employees render the services necessary to be eligible for such benefits. While the adoption of SFAS No. 106 does have an impact on the Institute's reported increase in unrestricted net assets, it does not impact the Institute's cash flow because the Institute intends to continue its current practice of paying the cost of postretirement benefits as incurred. The Institute has elected to recognize the transition obligation of $7,493,000 in its entirety as a cumulative effect of an accounting change in the accompanying 1996 statement of activities.

Effective August 1, 1995, the Institute elected early adoption of Statement of Financial Accounting Standards No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations (SFAS No. 124). Under SFAS No. 124, a not-for-profit organization is required to report invest-
ments in equity securities with readily determined fair values and all investments in debt securities at fair value with unrealized gains and losses included in the statement of activities. Accordingly, at August 1, 1995, the Institute increased the carrying value of its investments in marketable securities by $3,102,000 and, as permitted by SFAS No. 124, recognized the corresponding gain as a cumulative effect of an accounting change in the accompanying 1996 statement of activities.

In 1996, the Institute also adopted Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made* (SFAS No. 116). In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. As permitted by SFAS No. 116, the Institute recognized the cumulative effect of applying the provisions of this new Statement in the accompanying 1996 statement of activities.

A large number of people have contributed significant amounts of time to the activities of the Institute. The financial statements do not reflect the value of these contributed services because they do not meet the recognition criteria of SFAS No. 116.

In 1996, the Institute also adopted Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations* (SFAS No. 117). Under SFAS No. 117, an organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Accordingly, the Institute has reclassified the 1995 financial statements. This reclassification had no effect on the change in net assets for 1995.

Financial instruments which potentially subject the Institute to concentrations of credit risk include marketable debt securities and trade receivables. The Institute places its temporary cash investments with creditworthy, high quality financial institutions. The Institute holds bonds and notes issued by the United States government and financially strong corporations. By policy, these investments are kept within limits designed to prevent risks caused by concentration. Credit risk with respect to trade receivables is limited because the Institute deals with a large number of customers in a wide geographic area. As of July 31, 1996, the Institute has no significant concentrations of credit risk.

The carrying amounts of cash, receivables, accounts payable and accrued expenses approximate fair value because of the short-term nature of the items. The fair value of marketable securities is determined by quoted market prices. The fair value of long-term debt is based on current interest rates for similar debt instruments.

Inventories are stated at the lower of cost or market. A 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 three to ten years. Leasehold improvements are amortized over the shorter of their useful lives or the remainder of the lease period.

Dues are recorded in the applicable membership period.

Revenue from subscriptions is deferred and recognized on the straight-line method over the term of the subscriptions, which are primarily for one year.
Advertising revenue is recorded as publications are issued.

Notes and mortgages received by the Benevolent Fund in connection with assistance payments to members and their families are recorded as assets, net of amounts deemed uncollectible.

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

Costs of promotions and advertising are expensed as incurred.

Research and development costs related to software development are expensed as incurred. Software development costs are capitalized when project technological feasibility is established. Capitalized software costs are amortized by the greater of (a) the ratio that current gross revenue for a product bears to the total of current and anticipated future gross revenue for that product or (b) the straight-line method over the remaining estimated economic life of the product. Amortization begins when the product is ready for release.

The AICPA and the related organizations are organized as not-for-profit organizations under the applicable sections of the Internal Revenue Code. Certain income, however, is subject to taxation.

The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

---

2. **Marketable Securities**

<table>
<thead>
<tr>
<th></th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>($)000</td>
<td>($000)</td>
</tr>
<tr>
<td>U.S. Treasury obligations</td>
<td>19,086</td>
<td>17,526</td>
</tr>
<tr>
<td>Bonds and notes</td>
<td>30,963</td>
<td>27,525</td>
</tr>
<tr>
<td>Equities</td>
<td>20,331</td>
<td>17,441</td>
</tr>
<tr>
<td>Total fair value</td>
<td>70,380</td>
<td>62,492</td>
</tr>
<tr>
<td>Excess of fair value over cost</td>
<td>1,537</td>
<td>3,102</td>
</tr>
<tr>
<td><strong>Total cost</strong></td>
<td><strong>69,843</strong></td>
<td><strong>59,390</strong></td>
</tr>
</tbody>
</table>

Marketable securities held at July 31, 1995 (prior to the adoption of SFAS No. 124) were carried at amortized cost of $59,390,000 as shown in the 1995 statement of financial position. Short-term, highly liquid investments are treated as investments rather than cash equivalents and are included in marketable securities.

**Investment income consists of**:

<table>
<thead>
<tr>
<th></th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>($)000</td>
<td>($000)</td>
</tr>
<tr>
<td>Dividends and interest</td>
<td>2,982</td>
<td>2,753</td>
</tr>
<tr>
<td>Realized gains</td>
<td>3,826</td>
<td>605</td>
</tr>
<tr>
<td>Unrealized losses</td>
<td>(1,565)</td>
<td>(—)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,243</strong></td>
<td><strong>3,358</strong></td>
</tr>
</tbody>
</table>

---

3. **Inventories**

<table>
<thead>
<tr>
<th></th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>($)000</td>
<td>($)000</td>
</tr>
<tr>
<td>Paper and material stock</td>
<td>602</td>
<td>579</td>
</tr>
<tr>
<td>Publications in process</td>
<td>600</td>
<td>713</td>
</tr>
<tr>
<td>Printed publications and course material</td>
<td>1,183</td>
<td>991</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,385</strong></td>
<td><strong>2,283</strong></td>
</tr>
</tbody>
</table>
4. Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements consist of:

<table>
<thead>
<tr>
<th></th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and equipment</td>
<td>$22,281</td>
<td>$19,152</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>$15,072</td>
<td>$13,881</td>
</tr>
<tr>
<td>Less accumulated depreciation and amortization</td>
<td>$14,503</td>
<td>$11,114</td>
</tr>
<tr>
<td></td>
<td>$22,850</td>
<td>$21,919</td>
</tr>
</tbody>
</table>

5. Long-Term Debt

Long-term debt consists of:

<table>
<thead>
<tr>
<th></th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>N.J. Urban Development Corporation</td>
<td>$1,200</td>
<td>$1,200</td>
</tr>
<tr>
<td>Other</td>
<td>2,800</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$1,200</td>
<td>$4,000</td>
</tr>
</tbody>
</table>

The note bears interest at 5 percent, payable monthly, through February 15, 2013, when the entire principal balance is due. The note is secured by equipment with a net book value of $1,205,000. Based on borrowing rates currently available, the fair value of the note at July 31, 1996 is approximately $800,000.

6. Lease Commitments

The total amount of the base rent payments, net of the amounts to be paid to the Institute by the landlords, is being charged to expense using the straight-line method over the respective lease terms. The accumulated result of using the straight-line method of expensing rent in excess of actual rental payments amounted to $14,338,000 and $12,789,000 as of July 31, 1996 and 1995.

Minimum rental commitments on non-cancellable real estate and equipment leases in effect as of July 31, 1996 are:

<table>
<thead>
<tr>
<th>Year Ending July 31</th>
<th>($000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>$7,834</td>
</tr>
<tr>
<td>1998</td>
<td>8,479</td>
</tr>
<tr>
<td>1999</td>
<td>8,340</td>
</tr>
<tr>
<td>2000</td>
<td>8,169</td>
</tr>
<tr>
<td>2001</td>
<td>8,170</td>
</tr>
<tr>
<td>Years subsequent to 2001</td>
<td>80,488</td>
</tr>
<tr>
<td></td>
<td>$121,480</td>
</tr>
</tbody>
</table>

Rental expense for the years ended July 31, 1996 and 1995 was $11,050,000 and $11,598,000.

7. Employee Benefit Plans

The Institute sponsors a noncontributory defined benefit pension plan for substantially all employees. Pension benefits 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 components of the net pension expense for the years ended July 31 were:

<table>
<thead>
<tr>
<th>Component</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost — benefits earned during the year</td>
<td>$1,670</td>
<td>$1,619</td>
</tr>
<tr>
<td>Interest cost on projected benefit obligation</td>
<td>2,266</td>
<td>1,998</td>
</tr>
<tr>
<td>Return on plan assets:</td>
<td>(7,431)</td>
<td>(3,480)</td>
</tr>
<tr>
<td>Actual</td>
<td>4,586</td>
<td>794</td>
</tr>
<tr>
<td>Deferred</td>
<td>(274)</td>
<td>(274)</td>
</tr>
<tr>
<td>Net amortization of unrecorded net asset</td>
<td>102</td>
<td>68</td>
</tr>
<tr>
<td>Net amortization of unrecognized prior service cost and net gain</td>
<td>889</td>
<td>725</td>
</tr>
</tbody>
</table>

Funded status of the plan:

**MAY 1**

<table>
<thead>
<tr>
<th>Component</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual present value of projected benefit obligation, based on employment service to date and current salary levels:</td>
<td>(4,000)</td>
<td>(4,000)</td>
</tr>
<tr>
<td>Vested benefits</td>
<td>(26,193)</td>
<td>(23,666)</td>
</tr>
<tr>
<td>Non-vested benefits</td>
<td>(1,235)</td>
<td>(1,450)</td>
</tr>
<tr>
<td>Additional amounts related to projected salary increases</td>
<td>(5,088)</td>
<td>(4,807)</td>
</tr>
<tr>
<td>Projected benefit obligation</td>
<td>(32,516)</td>
<td>(29,923)</td>
</tr>
<tr>
<td>Plan assets available for benefits, at fair value</td>
<td>42,354</td>
<td>36,156</td>
</tr>
<tr>
<td>Plan assets in excess of projected benefit obligation</td>
<td>9,838</td>
<td>6,233</td>
</tr>
<tr>
<td>Unrecognized net transition asset</td>
<td>(2,063)</td>
<td>(2,337)</td>
</tr>
<tr>
<td>Unrecognized net gain</td>
<td>(11,804)</td>
<td>(7,169)</td>
</tr>
<tr>
<td>Unrecognized prior service cost</td>
<td>1,012</td>
<td>1,145</td>
</tr>
<tr>
<td>Accrued pension cost</td>
<td>(3,017)</td>
<td>(2,128)</td>
</tr>
</tbody>
</table>

Assets of the plan are invested primarily in stocks, U.S. government and agency securities, asset and mortgage-backed securities, bonds and cash equivalents.

Net transition amounts and prior service costs are being amortized over periods ranging from 11 to 18.5 years. Benefits are valued based upon the projected unit credit cost method.

The discount rate used to determine the actuarial present value of the projected benefit obligation was 7.75 percent as of May 1, 1996 and 1995. The expected long-term rate of return on plan assets used in determining net pension expense was 9 percent for the years ended July 31, 1996 and 1995. The assumed rate of increase in future compensation levels was 4.75 percent for the years ended July 31, 1996 and 1995.

The Institute also sponsors a 401(k) defined contribution plan covering substantially all employees meeting minimum age and service requirements. Participation in the plan is optional. Employer contributions are made to the plan in amounts equal to a certain percentage of employee contributions. The cost of this plan was $500,000 and $495,000 for the years ended July 31, 1996 and 1995.

The Institute sponsors employee postretirement health care and life insurance plans and contributes toward the annual cost of retirees remaining in these plans.

Prior to adopting SFAS No. 106, the Institute recognized the cost of these plans on the cash basis which amounted to $242,000 for the year ended July 31, 1995.

Net postretirement benefit cost for the year ended July 31, 1996 is comprised of:

<table>
<thead>
<tr>
<th>Component</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>$331</td>
</tr>
<tr>
<td>Interest cost on accumulated postretirement benefit obligation</td>
<td>570</td>
</tr>
<tr>
<td>Net postretirement benefit cost</td>
<td>$901</td>
</tr>
</tbody>
</table>
The accumulated postretirement benefit obligation as of May 1, 1996 consists of unfunded obligations related to the following:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirees</td>
<td>$2,809</td>
</tr>
<tr>
<td>Fully eligible active plan</td>
<td>2,790</td>
</tr>
<tr>
<td>participants</td>
<td></td>
</tr>
<tr>
<td>Other active plan participants</td>
<td>1,719</td>
</tr>
<tr>
<td>Accumulated postretirement</td>
<td>7,318</td>
</tr>
<tr>
<td>benefit obligation</td>
<td></td>
</tr>
<tr>
<td>Unrecognized net gain</td>
<td>822</td>
</tr>
<tr>
<td>Accrued postretirement benefit</td>
<td>$8,140</td>
</tr>
<tr>
<td>cost</td>
<td></td>
</tr>
</tbody>
</table>

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.75 percent in 1996.

The weighted average health care cost trend rate used in measuring the postretirement benefit expense was 7.75 percent in 1996, gradually decreasing to 5 percent in 2004 and remaining at that level thereafter. A one percentage point increase in the assumed health care cost trend rate for each year would have increased the accumulated postretirement benefit obligation by $1,258,000 and would increase the annual postretirement benefit expense by $182,000. The Institute funds the cost of these plans on the cash basis and in 1996 and 1995 paid $254,000 and $242,000, respectively.

8. Support for the Financial Accounting Foundation ("FAF")

The Institute makes an annual payment based on $2.00 per member to the FAF to support the work of the FASB. In addition, the ARA makes an annual best efforts commitment to raise funds for the FASB from sources within the accounting profession. The commitment is $2,750,000 for the calendar year 1996. The ARA also makes a best efforts commitment to raise funds for support of the GASB. The commitment is $470,000 for the calendar year 1996. It is anticipated the ARA will continue to support the FASB and GASB.

9. Net Assets

Net assets and changes in net assets for the years ended July 31, 1996 and 1995 follow:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AICPA</td>
<td>$16,524</td>
<td>$6,337</td>
<td>$22,861</td>
<td>$537</td>
<td>$23,398</td>
</tr>
<tr>
<td>Division</td>
<td>1,971</td>
<td>(259)</td>
<td>1,712</td>
<td>329</td>
<td>2,041</td>
</tr>
<tr>
<td>ARA</td>
<td>875</td>
<td>(39)</td>
<td>836</td>
<td>111</td>
<td>947</td>
</tr>
<tr>
<td>Benevolent</td>
<td>1,825</td>
<td>214</td>
<td>2,039</td>
<td>554</td>
<td>2,593</td>
</tr>
<tr>
<td>Fund</td>
<td>1,599</td>
<td>(130)</td>
<td>1,469</td>
<td>380</td>
<td>1,849</td>
</tr>
<tr>
<td>Foundation</td>
<td>22,794</td>
<td>6,123</td>
<td>28,917</td>
<td>1,911</td>
<td>30,828</td>
</tr>
<tr>
<td>Restricted:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foundation:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Library Fund</td>
<td>648</td>
<td>—</td>
<td>648</td>
<td>—</td>
<td>648</td>
</tr>
<tr>
<td></td>
<td>$23,442</td>
<td>$6,123</td>
<td>$29,565</td>
<td>$1,911</td>
<td>$31,476</td>
</tr>
</tbody>
</table>

The Foundation's restricted net assets represent a permanent endowment fund, the income of which is unrestricted.
AICPA BOARD OF DIRECTORS
1995–96

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