STEPPING INTO THE FUTURE

The Year In Review

1998–99 ANNUAL REPORT

AICPA

ISO 9001 Certified

Core **Services**

technologically ad

core *values*

integrity

Assurance & Infor

objectivity

International Services

core ***competencies***

lifelong learning

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Contents*

* Also view the 1998–99 AICPA Annual Report by visiting AICPA Online at http://www.aicpa.org.

The Year in Brief

- AICPA Chair Olivia F. Kirtley forges a double milestone as the first member from the business and industry segment, as well as the first woman to lead the profession as the Institute's Chair of the Board. She focuses the Institute and the profession on taking a more active role in legislative and public policy issues and on aligning services and structures with the CPA Vision.

- The AICPA takes bold steps toward realizing the CPA Vision, setting an agenda to align procedural rules, products and services, regulatory models, and learning methods with the requirements of the Vision.

- The Institute purchases the CPE business of the Professional Development Institute, Inc. (PDI), the nation's second largest provider of CPE programs for CPAs, and establishes a new AICPA/PDI operation in Lewisville, Texas. The new unit will broaden the CPE product line to include Vision-aligned disciplines, speed development of new courses, and achieve significant cost economies.

- *CPA WebTrust*SM moves toward becoming a dominant electronic commerce certification seal in Europe, the Institute having signed multiple licensing agreements with European professional associations to offer the service to members. The *WebTrust* seal is chosen by several large corporations, including E*Trade and Bell Canada, as their security mark of choice.

- The AICPA rolls out a second assurance service, *CPA ElderCare,* through which CPAs, engaged by caregivers, deliver care management and monitoring services to support elderly individuals' needs for independent living.

- Signing an agreement with six information technology companies and the largest CPA firms, the Institute spearheads development of a revolutionary, online delivery system for financial statements, using a new Web-based language model that will enhance financial information availability.

- The AICPA Board of Directors approves allowing CPAs in non-CPA-owned firms to offer compilation services, subject to peer review provision. This change protects the public interest while recognizing the reality of multidisciplinary practice settings.

- The AICPA extends the Knowledge Management concept to link the entire Institute family — including volunteer leaders, committee and task force members, and the Board and Council — under a custom, Web-based "collaboration tool" known as *KnowledgeNET*. Utilizing powerful software, the system enables users to work collaboratively, track projects automatically, chat online with colleagues, post news for selected recipients, and directly access relevant Internet sites, among other features.

- The Institute adopts a new, task-force-driven volunteer service model to infuse the traditional committee system with the nimbleness and flexibility to tap the expertise of more members in a more targeted fashion and to address rapidly evolving marketplace issues affecting the profession.

- The AICPA establishes new senior staff positions in key, Vision-intensive areas — Chief Information Officer, Johan Margono, and Director of International Technical Services, Herbert Finkston. The Institute also appoints a new Chief Financial Officer, Clarence Davis.

- The AICPA Special Committee on Accreditation of Specialization's new, market-driven philosophy for establishing new accreditations, to serve as marks of identification and distinction rather than certification, moves forward in the work of the National Accreditation Commission (NAC).

- To support members expanding their practices to include investment advice, the AICPA establishes the Center for Investment Advisory Services (the IAS Center), which will serve as a clearinghouse of information and resources to help members equip themselves to deliver the new service to clients, including preparation for the Series 65 Examination.

- A new *Strategic Management Series,* a comprehensive guide to evolving management concepts for members in business and industry, is launched with the publication of *Implementing Process Management: A Framework for Action*.

- *The AICPA Competency Assessment Tool,* the interactive, Web-based competency assessment and alignment tool, which was pilot tested last year, goes online.

- The AICPA adopts the groundbreaking *Competency Framework for Entry into the Accounting Profession,* a new model for guiding the alignment of accounting curricula with emerging marketplace demands and Vision-driven services.

- The AICPA's member library, long recognized as the nation's premier repository of accounting research, becomes the Center for Knowledge and Research Services, which will bring information to members using state-of-the-art technology in a Web-based environment.

- Working with the state CPA societies, the Institute produces a state-of-the-art, multimedia CD-ROM — *CPA Vision: Focus on the Horizon* — delivering extensive information on the CPA Vision process in a practical and interactive format to facilitate member understanding and individual application.

- The AICPA launches an innovative advertising campaign aimed at attracting minority students to the CPA profession depicting well-known sports figures with their CPAs under the tagline, "Be a Star in Business . . . Be a CPA!"

- A Business & Industry Hall of Fame is established to recognize significant professional contributions among CPAs serving in corporate settings, replacing the Outstanding CPA in Business & Industry Award.

- The AICPA makes available to members *Audit Issues in Revenue Recognition,* a "toolkit" providing auditors and preparers of financial statements with a comprehensive source of audit and accounting information related to revenue recognition concepts.

- Dedicated Web locations are introduced for the Practice Companies Practice Section (PCPS), at www.aicpa.org/pcps; and for Student Affiliate Members, at www.aicpa.org/nolimits.

- The Institute's innovative secondary-school recruitment CD-ROM, *RoomZoom: The CPA SourceDisc,* wins two prestigious honors — the APEX Award for Excellence in the category of multimedia and interactive publications and the Technology Innovation Award of the nationwide Association of Colleges and Employers.

- The AICPA expands its member insurance plan options to include, for the first time, an employment liability plan, covering member participants for workplace liability stemming from discrimination, wrongful termination and sexual harassment.

- For the third consecutive year, the top concern expressed by practitioners in an annual poll conducted by the Management of an Accounting Practice (MAP) Committee was "finding, hiring and retaining quality staff."

- The 150-hour continuing education requirement has now been passed in 48 states.

- CPAs are selected for two key government positions this year: David Walker as Comptroller General of the U.S. General Accounting Office (GAO), and Val Oveson as the Internal Revenue Service's first Taxpayer Advocate.

Message From the Chair and President

Olivia F. Kirtley, Chair, and Barry C. Melancon, President & CEO

Focused on the CPA Vision, the profession's aspirations for the future, the American Institute of Certified Public Accountants this year strove to align processes to ensure the profession's promise for an exciting and dynamic future. It was a year of putting muscle behind our brainwork, of turning our best thinking into best practices. We dug in, asked the hard questions, and began making the answers real.

Working as a profession to implement the Vision, we sharpened our focus, examined our structures and elevated our services to align everything we do with the needs of our current and future members. We bolstered our framework with concrete strategies — refining traditional competencies and introducing new services, all the while maintaining core values under challenging conditions.

We championed the public trust and helped adapt attest to accommodate multi-disciplinary practices. We married trust and integrity with marketing ingenuity to roll out new services. We blended technology with information to generate knowledge. In short, guided by the Vision, we began building an infrastructure to deliver more value and more bottom-line support to our diverse membership.

Internally, the AICPA revamped the way we deliver CPE, restructured the volunteer committee model, and strengthened technology and international affairs in our management structure. We took assurance services successfully overseas, and put a new structure in place to support Investment Advisory Services.

Overall, stepping up to the challenges of the future takes bold thinking and even bolder action. Change can be as uncomfortable as it is inevitable. But, CPAs already have an advantage in the marketplace, and we can't afford to succumb to fear or inaction. While other professions grapple with establishing new stakeholds in a marketplace characterized by massive, fast-paced change, we have already begun translating the CPA Vision into a strategic plan for success as today's and tomorrow's premier financial and business professional.

In the pages that follow, you'll see how the profession has already gone a long way toward turning a tradition of integrity and competence into a future of unlimited possibilities. Step by step, we're showing we're up to the task. We forged new ground in profession-wide cooperation — among members from all professional segments, the state CPA societies, other accounting organizations and international counterparts — and we have already made great progress. Striving toward a common goal with shared values will ensure that we succeed — enabling the profession to break through to realizing the Vision's promise.

We're now on the way to turning our bold premise for success into new pathways for CPAs profession-wide. As you'll see in this report, the promise of the CPA Vision is not only within our reach, but also within our grasp.

Olivia F. Kirtley

Olivia F. Kirtley
Chair

Barry C. Melancon

Barry C. Melancon
President & CEO

"Stepping Into the Future"

The past year witnessed domestic and international changes in the financial marketplace not seen since the post-Depression era. This time around, however, the changes are being fueled by a boom, not a bust, ushering in a new regulatory atmosphere that is driving unprecedented competition.

Technology is also reforging the CPA profession and the financial services arena with new infrastructures to support an increasingly global economy, real-time information exchange and online business transactions. At the same time, a universe of information has become available anytime, anywhere, directly to "consumers" at home or at work.

In this brave new world, professional distinction is becoming ever more critically important. As other providers scurry to define their niches, the CPA has a competitive edge. We already hold a custom, strategic framework for our future — the CPA Vision.

This year, the AICPA put great energy and enthusiasm behind many new activities aimed at transforming the profession's Vision of the future into a strategic plan. It's been an exciting 12 months of seeing research become process, and process become progress, achieving significant steps toward making the Vision a reality.

Turning Vision Into Strategy — Aligning Process

Joining forces once again with the state CPA societies that have been so invaluable to the Vision process from the start, the AICPA jointly sponsored a Vision-to-Strategy Workshop to springboard the CPA Vision implementation effort. With an extraordinary show of enthusiasm and energy among participants from all 54 jurisdictions, AICPA and state society leaders explored collaborative strategies and developed specific implementation plans for each strategy. Grabbing the reins of our own future, the profession transformed seminal thinking into essential strategies that will help the profession realize the Vision's promise.

"The promise of the CPA Vision is not only within our reach, but also within our grasp."

For individual CPAs, participating in the Vision means not only understanding it, but being able to apply it to their own professional lives. To bring the Vision, quite literally, into CPAs' homes and offices, the AICPA and the state CPA societies produced a CD-ROM entitled *CPA Vision: Focus on the Horizon*. Using state-of-the-art digital technology, the multimedia CD-ROM delivers in a practical, dynamic format a broad range of information, taking users from theory to application to implication. As a self-directed tour of the CPA Vision, the CD-ROM also offers interactive self-assessment tools and menu-driven information options that personalize each user's experience and make clear the practical and enduring benefits of the process in a personal way.

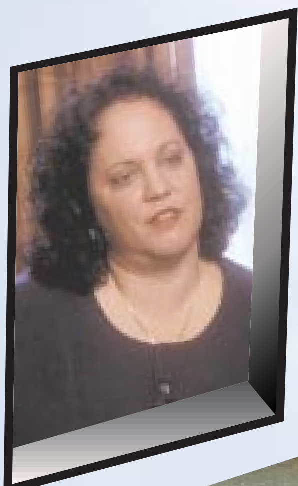
Within the AICPA, we took a hard look at everything we do and began to align our processes to help enable members as they work to achieve their professional goals guided by the Vision findings. We also strove to reflect Vision principles themselves in our management structure.

Recognizing, for example, technology's key role in the rollout of the CPA Vision, the Institute conducted a thorough search and brought on staff its first Chief Information Officer, Johan Margono. He will oversee one of the most critical aspects of the CPA's future — the effective and innovative delivery of technology-driven products and services.

Meshing the power of technology with the Institute's commitment to Knowledge Management, the Institute introduced a state-of-the-art, Web-based "collaboration tool" called the *AICPA KnowledgeNET*. This tool will ultimately take Knowledge Management — the identification, capture and leveraging of information throughout an organization — to the workstations of the entire AICPA "extended family," including staff, Board and Council members, volunteer leadership and committee and task force members. The system operates as if it were a dedicated Web site for the accounting profession, accessible 24 hours a day, seven days a week from anywhere with Internet access. Users can share documents with designated team members, chat, access

"Today's CPAs provide what clients need — directly on point, dripping with practicality — impacting clients' business and creating value on a daily basis."

— Janet Caswell
President
@BusinessAdvisor.com, LLC
CPA PATHFINDER



research, track projects, circulate ideas to selected groups, post news and access outside research through Internet links, just to mention a few of the system's capabilities. As one central source for such vast resources, *KnowledgeNET* turns professional cross-functionality into cross-pollination.

In another move to put the power of the Internet to maximum use for the benefit of the profession, the AICPA has adopted a new organizational strategy to redefine itself as a Web-based organization. This "Web-First" policy means an ironclad commitment from everyone in the organization to think of using the Internet first and to refocus efforts and work processes to fully exploit the enormous opportunities of the World Wide Web.

To infuse the volunteer committee system with the flexibility and nimbleness needed to address unfolding marketplace issues, the Institute also restructured its traditional committee model. The new model is designed to increase the number of participating members and to deploy their professional contributions in a more targeted and quick-to-action setting.

The task-force driven model will have a broader reach to tap the special expertise and interests of individual members from all segments of the profession as we align the profession with the Vision.

Multiple new task forces will allow active member interchange, decision-making and input on critical initiatives, with members taking on even more responsibility and authority over the critical work they do for the profession. Members of each task force will be selected from a "pool" of involved members who choose to be part of a new database that captures such vital information as special expertise, experience and expressed interests.

To enhance coordination across all volunteer efforts, a high-level, cross-functional group of member thought leaders from various segments of the profession was also created. This group plays a major role in identifying emerging issues and recommending global prioritization for resource commitment of staff and volunteers.

Gearing Up — Aligning Competencies

Amid blurring distinctions among professional service lines in the marketplace, our unique competencies are the critical factors distinguishing us from other providers. A focus on delivering specific services needs to give way to developing broader competencies. Traditional skill sets, while still invaluable and unique to the CPA, are being expanded and refocused.

For CPAs, a primary resource for strengthening competencies is Continuing Professional Education. Accordingly, the AICPA took a dramatic step to augment its ability to adapt quickly to marketing and professional challenges facing our members. After an extensive cost/benefit analysis, an organizational impact study and personnel reassignment considerations, the AICPA acquired the CPE business of the Professional Development Institute, Inc. (PDI) and established a new AICPA/PDI unit.

The new operation, based in Lewisville, Texas, now handles course development, state society interface and group-study account management. Bringing the nation's second-largest provider of CPE programs for CPAs into the AICPA fold, the acquisition resulted in former PDI President Paden Neeley, Ph.D., CPA, and professor at North Texas University, joining the AICPA as Vice President for CPE Group Study.

Over time, the acquisition's synergies should yield CPE more targeted to confirming CPAs' Vision-aligned competencies. The Institute will consolidate and expand its broad product line, strengthening consulting and management courses, developing and releasing new courses more quickly, and eliminating course overlaps, as well as achieving cost economies and enhancing member service.

Also, as part of the CPE reengineering effort, the AICPA rolled out its innovative *AICPA Competency Assessment Tool.* The *Tool* is an interactive, Web-based resource that enables CPAs to assess current skill levels in a series of operational competencies. The *Tool* allows members to chart their own, individual course to lifelong learning, based on their desired level of skill in each competency as well as their professional needs. Users also receive suggestions of resources to help them reach desired goals. Unique groupings of competencies, or "Models" within the *Tool,* will customize its application to different areas of professional expertise.

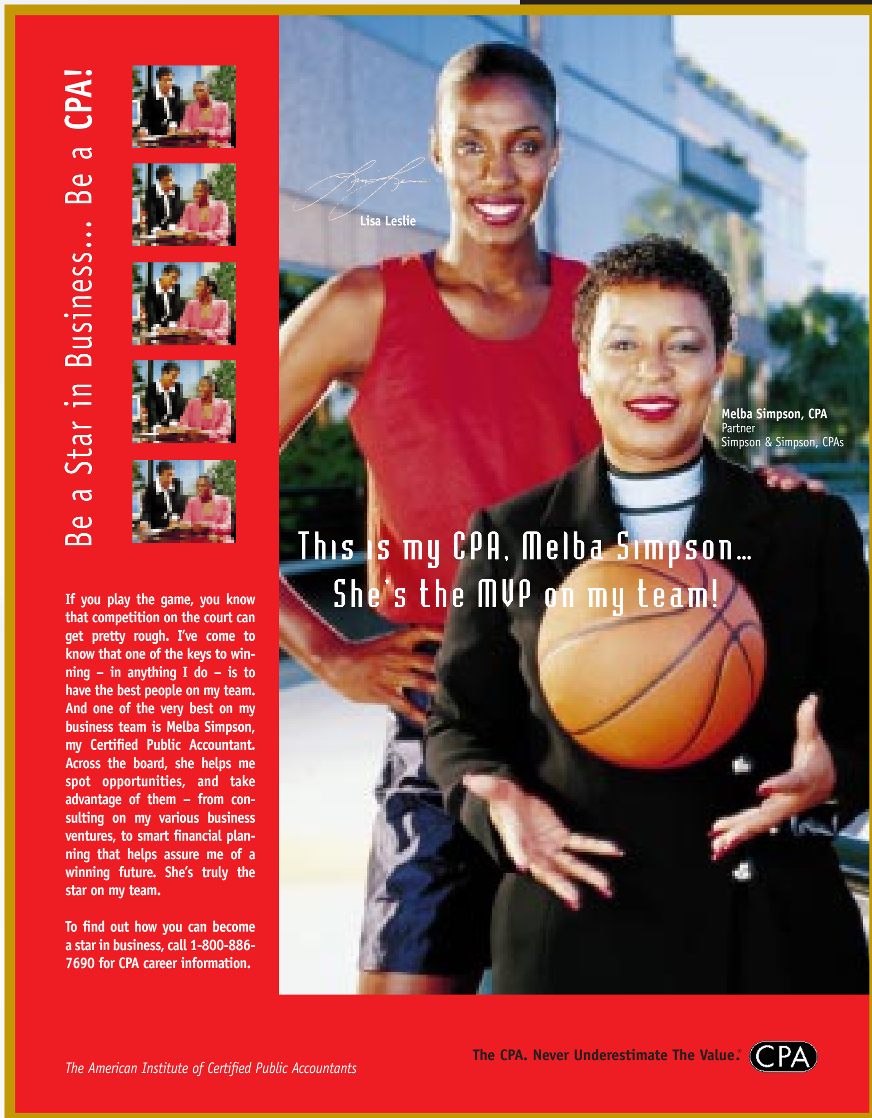
To mesh the profession's fundamental responsibility to protect the public interest with evolving professional competencies, the Uniform CPA Examination also must echo the disciplines that candidates will require as entry-level practitioners. Working toward a launch of a computer-based examination in 2003, the Computerization Implementation Committee (CIC), a joint effort of the AICPA and the National Association of State Boards of Accountancy (NASBA), made major inroads this year. Among them was the completion of a feasibility study to assess time frames, costs, technical viability and stakeholder reaction to a computer-based examination model. In support of this effort, the AICPA brought on staff a new Executive Director of Examinations, Dr. Craig Mills, a leading psychometrician who spearheaded the conversion of the Graduate Records Examination (GRE) to a computer-based examination.

Building core competencies into the academic training of accounting students is equally important for the profession's future. The Institute's Pre-Professional Competency Task Force recently introduced its groundbreaking *Competency Framework for Entry into the Accounting Profession*. The framework is a Web-based resource to guide professors in aligning accounting curricula with emerging marketplace demands and Vision-aligned CPA services. The framework identifies a set of skill-based competencies critical as a foundation for students entering the profession and links educators to sample learning strategies and best-practices techniques.

To attract the best students to the profession as an exciting career opportunity, the AICPA developed a new high school curriculum framework that extends to students in all areas of study, including business, social sciences, math and technology. The new framework introduces high school students to the values, competencies and services that match the findings of the CPA Vision.

Attracting the most talented students also must be focused on crossing all lines of ethnicity and cultural background. A profession has not reached its full potential unless its mix of members is inclusive of the increasingly multiethnic publics it serves. This year, the Institute launched an effective advertising campaign aimed specifically at high school students from minority groups. Using noted sports personalities, pictured with their actual CPAs, the ads are designed to convey to students a positive image of CPAs and the variety of work they do. Carrying the tagline, "Be a Star in Business . . . Be a CPA!" the ads parallel the fame of the personalities with the importance of the role of their CPAs in their financial affairs.

Also opening new doors in outreach to educators, the AICPA entered into an affiliation with the Federation of Schools of Accountancy (FSA), an organization representing accredited graduate programs in accounting. Serving as administrator of various FSA programs and activities, the AICPA will be better able to coordinate opportunities for collaboration and enhance outreach to educators. Also enhancing the Institute's reach to students nationwide is its standing affiliation with the premier accounting student fraternity, Beta Alpha Psi (BAP), which has been enhanced this year to better support BAP's growth as it opens its membership to include finance and information systems students nationwide.



Superstar Lisa Leslie joins her CPA in an ad from the AICPA minority student recruitment campaign.

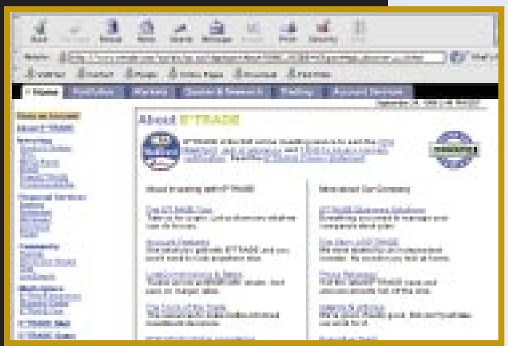
Delivering New Goods — Services Alignment

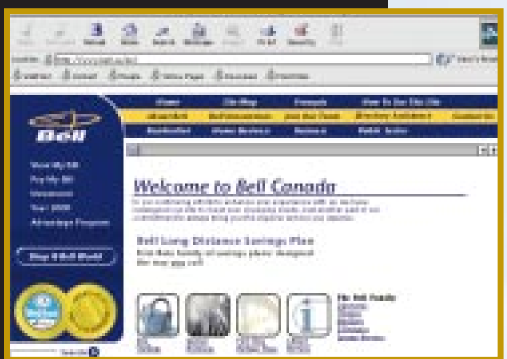
In the visioning process, CPAs closely examined the demands and requirements of the changing marketplace. We took a professional inventory and found ourselves well prepared to create several definitive and rewarding niches in the new environment. Weighing our strengths against unfolding marketplace demands, we defined a new set of core services where supply and demand crossed to mark new opportunity.

Assurance and Information Integrity

Research during the visioning process identified assurance services and information integrity as the CPA's number-one core service for the future. Blending a century-strong tradition of trust and integrity with financial insight and unparalleled talent for interpreting complex information, the CPA stands apart in the financial services marketplace. In an economy becoming increasingly electronic and virtual, the CPA can deliver unique added value to consumers who need "assurance" amid dizzying amounts of information, face a barrage of new financial services providers and confront unfamiliar vendor names.

*CPA WebTrust*SM, launched last year in partnership with the Canadian Institute of Chartered Accountants (CICA) as the first in this new family of assurance services, continues to log significant progress in market penetration. The *CPA WebTrust* seal, the certification mark of the service, now appears on the Web sites of such prominent companies as the online brokerage firm E*Trade, telecommunications giant Bell Canada, and cameraworld.com, to name a few. To support continued consumer demand, a *WebTrust* event-marketing strategy has been developed, focusing on bringing *WebTrust* licensees together with e-commerce merchants in strategic venues around the country.





*E*Trade, Bell Canada, and cameraworld.com proudly display the CPA WebTrust[SM] seal on their Web sites.*

During the first half of 1999, the *WebTrust* program expanded into the United Kingdom, Ireland and Australia, and negotiations continue for further expansion in Europe and Asia. This expansion positions the *WebTrust* seal as a dominant global electronic commerce certification seal.

Domestically, competition by services offering minimal assurance at a lower price has hampered more widespread market demand for the *WebTrust* service, but no dominant provider is yet established. Recent concern expressed by such influential regulators as the U.S. Department of Commerce, the Federal Trade Commission, the Securities and Exchange Commission (SEC), the European Union and others on comprehensive e-commerce protection has proven to be promising and positions *WebTrust* to be the dominant seal of choice in an ever-maturing marketplace.

Congress, too, is looking to the private sector for workable solutions to concerns about e-commerce security. In response, Everett Johnson, chair of the joint AICPA/CICA E-commerce Task Force, testified before the U.S. House of Representatives' Subcommittee on Telecommunications, Trade and Consumer Protection, analogizing the CPA's highly respected assurance role in the U.S. securities markets to the security needs of e-commerce, to which the legislators were very receptive.

Moving forward, the growing line of assurance services being rolled out through the work of the Institute's Assurance Services Executive Committee (ASEC) include *CPA ElderCare Services, CPA Performance View* and *CPA SysTrust*. Also, plans are under active development to extend the *WebTrust* family of services to new models such as *WebTrust* for Internet Service Providers, for Certificate Authorities and for business-to-business transactions.

CPA ElderCare Services is designed to enable CPAs to assist older adults with a wide range of services and to provide assurance to relatives that care needs are being met adequately. Working with the client or a member of the client's family, the CPA coordinates the services of providers and makes sure they are handled in a reliable and timely fashion. The CPA also provides direct services such as financial management and estate planning.

Currently under active development, *CPA Performance View* is an engagement in which CPAs apply a specially developed series of key performance indicators to help clients monitor and track progress in achieving their strategic objectives and goals. The CPA applies the *Performance View* software indicators, which can be tracked over time, to help measure and monitor critical factors that affect an organization's value.

CPA SysTrust, being exposed for comment by the Systems Reliability Task Force, engages the CPA as a trusted third party to assess the reliability of a company's product or information technology system and deliver a report to management. ASEC developed a set of four criteria — availability, security, integrity and maintainability — on which the analysis will ride.

International Services

It's impossible to pave a path to the 21st century without reaching beyond our own borders. The reality of today's world demands the profession be globally astute and globally involved. Instantaneous, electronic communication anywhere in the world has made natural boundaries and national borders invisible to commerce. With the world virtually resident at our home and office workstations, the adrenaline of technology has accelerated the globalization of the economy.

With electronic commerce and a global economy, access to capital markets is no longer limited to Wall Street. And, in a world where technology enables real-time information and instantaneous, customized delivery of that information, time will have less influence on those markets.

With commerce that is increasingly blind to political borders and distance, today's transactions rarely are strictly domestic. To do business in the United States is increasingly to do business internationally. Certainly, the CPA Vision findings point us in that direction, identifying international services as one of the top five core services that will define the profession's future, along with assurance and information integrity, technology services, management consulting and performance management, and financial planning.

As the profession's premier professional organization, the AICPA has increased its efforts, in cooperation with the state CPA societies, to expand the influence and services of the CPA in international business. Serving clients and employers in today's world economy requires awareness of different cultures, laws and regulations and, perhaps above all, international accounting and auditing standards.

Moreover, the internationalized marketplace is a source of significant new business opportunities for the profession. Among financial services providers, the CPA brings to the competitive table unique education, experience, skills, and time-honored reputation for integrity and objectivity. In a marketplace thirsty for truly global services delivered with assurance as to quality and reliability, the CPA is particularly well positioned for a major role in the global marketplace — if we're prepared to seize the opportunities.

Expanding its proactive approach, the AICPA aims at helping members equip themselves to capitalize on these opportunities. Organizationally, the Institute has a dedicated senior position, Director of International Technical Services, along with a standing committee, the International Strategy Committee (ISC). ISC members include the chairs and members of committees and the governing council of the International Federation of Accountants (IFAC). The ISC will propose strategies relating to the direction the AICPA should take on a variety of international issues. This process has already played out with recommendations on the proposed restructuring of the International Accounting Standards Committee (IASC).

With commerce less fettered by national boundaries, the rules by which accountants must apply their professionalism continue to impede business with national and regional variations. Addressing this issue is the multinational IASC on which the AICPA sits along with the Institute of Management Accountants (IMA) as the U.S. representatives, and to which the AICPA Accounting Standards Executive Committee (AcSEC) provides commentary. The IASC has issued a core set of international standards, the International Accounting Standards (IAS), which already have been adopted by some countries. The standards issued by the IASC will be considered for use in public filings by the SEC under criteria that it will issue as well as by other securities regulators around the world.

The AICPA's participation internationally goes beyond the IASC. Significant volunteer and staff resources have been committed to support the work of IFAC, of which the AICPA is a member body and serves on its governing council. AICPA members serve as chair of IFAC's International Auditing Practices Committee (IAPC), which develops and issues international auditing standards, and as chair of IFAC's Ethics Committee, which is working on a revision of IFAC's independence rules. The IAPC is currently in the process of seeking endorsement from the International Organization of Securities Commissions (IOSCO) for the use of International Standards on Auditing in cross-border filings. The Institute also works closely with regional and national accounting bodies throughout the world, increasing our contacts and cooperative efforts with other accounting associations around the globe.

The AICPA also participates in the work of special groups staffed by professionals from around the world. It serves as a member of the InterAmerican Accounting Association, whose member countries include Canada, Mexico and the nations of Central and South America. In recognition of our important relationship with our Canadian colleagues, the AICPA Board of Directors recently appointed a new public Board member from Canada, who has served as the chair of the Ontario Securities Commission.

Investment Advisory Services

With commerce exploding in scope and reach, clients have come to expect the large picture. The same holds true for their expectations in financial services providers. Fueled by deregulatory pressures domestically and internationally, the notion of one-stop financial services is becoming ever more likely in the marketplace. In this atmosphere, CPAs are finding more reason than ever before to extend traditional disciplines into related service areas.

One of the most requested and important service areas to comprehensive financial planning is investment advisory services. To support this major new opportunity for the CPA profession, the AICPA Board approved this year the creation of the Center for Investment Advisory Services, or IAS Center.

The IAS Center is intended to provide a full spectrum of support to enable CPAs to expand their practices to include investment advisory services. Using internal resources and external partnerships, the IAS Center will offer training, regulatory compliance and other professional programs and services. Revenues generated by the IAS Center will be returned to membership in the form of marketing support for the CPA/PFS accreditation.

CPAs in Business and Industry

For the increasing numbers of CPAs whose careers involve key decision-making responsibility as members of corporate management, the dedicated AICPA Industry and Management Accounting team, working with the Business & Industry Executive Committee, continues to provide guidance on the concepts and ideas at the leading edge of thought in corporate management. For example, process management — a customer-driven, value-centered concept of corporate management — is the subject of a new Management Accounting Guide, *Implementing Process Management: A Framework for Action,* which was developed for members. This "MAG," in fact, is a component of the Strategic Management Series, which is a comprehensive annual guide to evolving management concepts offering new guidance and practices. Frequently in collaboration with the Consortium for Advanced Manufacturing — International (CAM-I), other management concepts addressed include target costing, cost management and the use of P-cards for inventory purchasing, at such forums as the annual AICPA/CAM-I Cost Management Symposium. At the AICPA, the Center for Excellence in Financial Management continues to provide a virtual clearinghouse for all such management topics, and can be accessed at www.aicpa.org/cefm.

"Technology-savvy CPAs are comfortable with a complete paradigm shift — looking at electronic images versus pieces of paper."

— Wayne E. Harding,
VP & General Manager of Hosting Services, Great Plains Software
CPA PATHFINDER

Other new initiatives also were introduced over the past year. For those members serving their organizations as controller, the Industry and Management Accounting team inaugurated the annual AICPA Controllers Workshop, at which authorities address and engage attendees with practical information on new management techniques. Also introduced this year is the Business & Industry Hall of Fame. Replacing the Outstanding CPA in Business & Industry Award, it is meant to herald the work of CPAs who epitomize "New Finance" principles in their work.

In a landmark change to the CPA profession's flagship publication, the *Journal of Accountancy* this year expanded its coverage by 24 pages. The additional resources are to be tailored each month to the interests of members in business and industry. The *JofA's* staff will be joined by noted business writers from around the country to address topics and issues that help managers bring new, Vision-driven value to their corporate teams.

Primary Information Professional

As we approach the 21st century, rapid-fire advances in technology are impacting information in two distinct ways — increasing the volume of information available and speeding its delivery to end-users. What we can access and how we can access it are raising the bar on information utility. Technology has turned the meaning of "on time" to "real time." To be competitive in this environment, individuals and organizations need ready access to information that is broader in scope and keener in value and, at the same time, more targeted to their needs and adaptable to their use.

Who better than CPAs to take the lead? CPAs already hold proven ability to deal systematically with complex information, to see through the fluff and get to the core. Couple that with the computer literacy that is the new professional language young accountants live and breathe daily, and the prognosis for the CPA as the premier information professional for the next century is outstanding.

Mixing the power of technology with the strength of the profession's reputation, the AICPA joined with six information technology companies and the largest CPA firms to develop a revolutionary new delivery system for financial statements. The new, software-based system provides a framework that allows the financial community a standards-based method to prepare, publish in a variety of formats, exchange and analyze financial reports and the information they contain. The new specification, currently called XFRML, for XML-based Financial Reporting Markup Language, also will allow financial information prepared using this framework to be automatically exchanged and reliably extracted across computer applications. The XFRML specification will be freely licensed to encourage its use and to enhance the availability of financial information to the investing public.

Acutely aware of the importance and newness of technology to many CPAs, the AICPA continues each year to issue its list of "Top 10 Technology Issues." Ranking the current impact of future technologies identified by a highly skilled group of CPAs and technology experts in an annual "laboratory" setting, the list is the profession's best estimate of the technologies, issues and concepts that will affect business over the next year. It can be accessed at www.TopTenTechs.com.

In line with the emerging role of technology in the lives of CPAs and their clients, a new specialty accreditation has been proposed by the Information Technology Executive Committee. The new designation not only recognizes the importance of technology to the work of all CPAs in today's world, but also crystallizes the value technology consulting can offer the CPA as a service opportunity. It also is squarely in synch with one of the CPA Vision's top-five core services.

A New Accreditation Approach

Accreditation, in information technology and other areas, now serves to display to clients, prospects and employers that CPAs already hold special expertise in new or unfolding disciplines. This new approach recasts accreditation as a calling card of identification and distinction rather than a certification of competence. Specialization, notably, was cited as a CPA Vision top-five issue for the future of the CPA profession.

Following groundbreaking work by the AICPA's Special Committee on Accreditation of Specialization, the National Accreditation Commission (NAC), a senior committee recommended by the Special Committee, is driving the selection process forward. The NAC was formed to formally identify, recognize, advocate and support new specialization areas that warrant an accreditation program. The NAC's decision to accredit a specialty hinges on market-driven analysis aimed at branding a CPA-provided specialized service as the service of choice for consumers or employers. Using a formal "screening process," the NAC first considers new or emerging services, and secondarily, existing specialties where there is no dominant provider or significant competitive threat. Also, accreditation is considered only where the potential market is large, economic benefit or career enhancement to CPAs is clear, and timing can outpace any competition.

Applying Our Principles — Values Alignment

With regulatory paradigms being challenged by market realities, some professional services firms have eyed small and, more recently, second-tier accounting firms as acquisition targets to expand the breadth of their financial services capabilities. In 1998, the combined revenues of the three primary corporations "consolidating" CPA firms equaled that of 13 of the top 20 CPA firms. In 1998, Century Business Services alone acquired nearly 40 accounting and consulting-related firms, catapulting it to the number seven spot among *Accounting Today's* list of Top 100 Firms, and HRB Business Services, an H&R Block subsidiary, has purchased six.

This scenario has resulted in practice realities that need to be reflected in AICPA ethics rules. After a long period of discussion and soul-searching among practitioners, state CPA societies and the AICPA, the Institute's governing Council voted to allow the increasing numbers of CPAs who perform compilations in non-CPA-owned firms to offer this service to clients without violating the AICPA by-laws. This action becomes effective only after the peer review requirement for those CPAs is secured.

Approaching Government

The dynamics of a volatile marketplace also present significant challenges to the legislative framework that regulates it. A booming economy, record U.S. market capitalization — recently put at $12.8 trillion by *Fortune* magazine — and consumers no longer saddled by Depression-driven jitters about the integrity of financial markets have put fundamental regulatory paradigms up for discussion. Even hallmark legislation that structured the financial services marketplace as we know it for over 50 years is being considered for repeal. In this environment, it is perhaps more critical than ever that the voice of the CPA profession be heard in the nation's capital as we establish our place in the new financial services marketplace. In our special role as protector of the public interest, moreover, we stand to bring unique value to the debate on keeping regulation in the private sector as Congress scrambles to uphold basic principles while accommodating rapid and fundamental structural change.

Constant amid such rapid change is the AICPA's belief that it is a duty of leadership to advocate and represent the profession in the political process. To help focus the efforts of the profession in Washington, the AICPA established this year the Political Leadership Cabinet (PLC). This group of 23 politically experienced members is an advisory panel to the Board of Directors, the AICPA's Political Action Committee and the AICPA Congressional & Political Affairs team in Washington. As political leaders in the profession, the PLC will reach out to the state CPA societies, committee chairs, the Board and Council members to build on and expand the AICPA's highly successful Federal Key Persons Program and the efforts of the AICPA's Washington team. The PLC will identify the public policy issues in which CPAs can and should contribute, and speak on their behalf on these issues, as well as legislative matters affecting the profession.

Each session, Congress is flooded with thousands of pieces of legislation that contain hundreds of references to the CPA profession. The AICPA's Washington team maintains a strong, proactive presence on Capitol Hill to protect the professional identity and reputation of the profession and to promote CPAs as the experts we are. In such areas as reforming the American tax system, regulating electronic commerce and protecting legitimate business practices, the AICPA demonstrated its longstanding commitment to getting the voice of the profession heard, once again scoring many major victories.

That voice reached the Oval Office this year, when the president signed an AICPA-backed bill to limit lawsuits relating to potential Year-2000 computer glitches. A major victory for businesses and their auditors, it averted a potential free-for-all of abusive legislation.

Major tax reforms advocated by the Institute became part of a comprehensive tax reform bill, which was passed by Congress but vetoed by the president. Among the important Institute-backed positions that stood to become law were alleviation of the marriage penalty, phase-out of the individual alternative minimum tax and 100% deductibility of the cost of health insurance for the self-employed. Also in the bill were two other proposals the AICPA helped develop regarding the generation-skipping tax and employer-provided retirement planning services. The AICPA continues to lobby to get these provisions included in a compromise bill; if no compromise is achieved, Institute efforts will continue in the next Congress.

This year's congressional agenda also included the president's proposal to limit corporate tax shelters. The AICPA testified in support of efforts to restrict improper tax activities and to impose appropriate sanctions, while strongly defending the rights of taxpayers to minimize the tax liability they must fairly pay. Congress has not yet attached such changes to any specific legislative proposal.

"Industry CPAs close the books and generate budgets — but their real role is to be management's right hand and to help run the business."

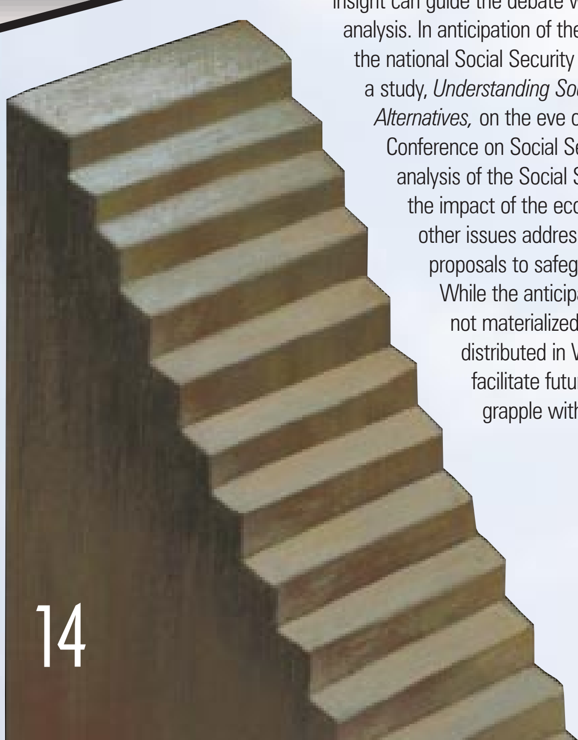
— Lali Watt, Manager of Acquisitions & Accounting, FMC Corporation CPA PATHFINDER

Discussions on the legislative docket again this year brought under fire the private sector's role in setting accounting standards. Several senators called for hearings to examine the Financial Accounting Standards Board's projects to eliminate "pooling of interests," an accounting methodology that has fueled many business mergers, to establish accounting rules for stock options, and, now indefinitely postponed, to examine the treatment of research and development costs. The AICPA continues to oppose congressional intervention in the private-sector standards-setting process and has asked several CPA Key Persons to underscore this point with their individual senators.

Electronic commerce also has become a major topic of discussion in Congress, with weekly hearings on everything from taxing Internet transactions to protecting individual privacy. The AICPA has ensured that the CPA profession is actively engaged in the dialogue. A very responsive Congress heard testimony from AICPA Senior Vice President Alan Anderson on how the Institute's new *WebTrust* assurance service could help solve the problems of privacy and security and, so, quell consumer anxieties that currently stunt the enormous potential growth of electronic commerce. Also, the Federal Trade Commission heard two *WebTrust* briefings in its own examination of electronic commerce issues. With these efforts, *WebTrust* is gaining recognition on Capitol Hill as the kind of private-sector solution electronic commerce needs to achieve its boundless potential impact on the world economy.

On banking issues, the AICPA also continued to offer expertise in congressional testimony. This year, the AICPA was part of the discussion on how financial institutions account for loan losses, part of a move by federal regulatory agencies to establish clear guidelines for loan and lease loss reserves held by banks. The profession will continue to support private-sector solutions to this important accounting and tax issue.

Reflecting the CPA's special position as protector of the public interest, it is important that the profession's voice also be heard on public policy issues where the CPA's unique insight can guide the debate with unbiased facts and analysis. In anticipation of the debate about the future of the national Social Security system, the Institute released a study, *Understanding Social Security: The Issues and Alternatives,* on the eve of the White House Conference on Social Security. The study is a broad analysis of the Social Security system that weighs the impact of the economy, labor, savings and other issues addressed by congressional proposals to safeguard Social Security benefits. While the anticipated congressional reform has not materialized, the AICPA study was widely distributed in Washington and will no doubt facilitate future discussion as policymakers grapple with reform.



Making the Vision Known

Reaching the publics we serve with the profession's message is equally critical to our future. As CPAs begin to live the Vision, core values and competencies will present new opportunities, and evolving new products and services will increase the value CPAs bring to the marketplace — that's part of the Vision's promise.

But to reap the rewards, we need to be sure that the marketplace knows we're there, professionally equipped to serve its changing needs. For the fourth consecutive year, the AICPA's innovative CPA Image Enhancement Campaign showed increased levels of audience reach and perception change, as measured by independent market research. The joint use of the campaign by the AICPA and the state CPA societies clearly leverages the impact of the CPA Brand as well as enhances the positive image of the CPA nationally and at the state level.

Over the years, the campaign also has been extended to support specific member segment areas, such as business and industry and personal financial planning. This year, the first of a series of ads supporting the CPA/PFS specialty designation was developed for business publications, including *Worth* and *Fast Company.*

The campaign also has moved forward in Vision-aligned strategic directions. Market research was completed this year that allows us to further evolve the CPA Brand to more closely reflect the Vision. The branding initiative translated the outcomes of the Vision process to combine the more aspirational elements of the CPA's future, such as creativity, foresight, and insight, with traditional CPA attributes, including integrity, competence and reliability, to form a revitalized, contemporary CPA Brand.

Getting in Step — Aligning the Future

The CPA profession is moving rapidly on its way to a new future. Combining professional soul-searching with marketing savvy, we met change head on and created a new framework for success.

Over the past year, with the CPA Vision to guide us, we began to align all that we do to make reaching our destination possible. We aligned thinking to support ideas. We aligned rules to uphold values. We aligned processes to springboard change. And, we strove to uphold our professional duty to protect the public interest. Step by step, we're moving toward the future we defined for ourselves through the CPA Vision.

Put another way, we're turning our Vision framework into a strategic plan. While a long road still lies ahead, we're well on our way. With the CPA Vision as our goal, we'll continue turning objectives into strategies and strategies into success. Equipped as never before, we've begun stepping into that future.

Sources and Occupations of AICPA Membership

	1987	1989	1991	1993	1995	1997	1999
Total AICPA Membership (excluding student and other affiliates)	254,910	286,358	301,410	314,427	323,779	329,019	336,635
Public Accounting	47.6%	45.8%	43.2%	42.2%	40.7%	39.6%	39.5%
Business & Industry	39.5%	39.9%	40.7%	40.3%	41.7%	43.1%	46.2%
Education	2.8%	2.7%	2.8%	2.3%	2.4%	2.4%	2.4%
Government	3.4%	3.7%	3.9%	4.3%	4.4%	4.4%	4.3%
Retired & Miscellaneous	6.7%	7.9%	9.4%	10.9%	10.8%	10.5%	7.6%
Membership in Public Practice	121,349	131,014	130,078	132,821	131,887	130,439	133,036
Firms with one member	25.6%	23.8%	24.1%	23.2%	23.2%	23.1%	22.8%
Firms with 2–9 members	34.0%	33.8%	35.2%	35.8%	36.5%	36.2%	34.7%
Firms with 10 or more members, except the 25 largest firms	15.5%	17.3%	18.8%	20.0%	20.4%	21.0%	21.6%
25 largest firms	24.9%	25.1%	21.9%	21.0%	19.9%	19.7%	20.9%

Management's Discussion and Analysis

Continuing in the direction of last year, the Institute was focused on many new and expanded initiatives. In October 1998, the Council adopted the CPA Vision Project, which identified the core purpose, values and services of the profession over the next ten to fifteen years. The Institute has begun the task of integrating the Vision into its strategic and long-range planning efforts, while reaffirming its commitment to public interest and self-regulated activities.

In April 1999, the Institute, in an effort to restructure and strengthen its professional development operations to more closely reflect the Vision of the profession, purchased certain amortizable assets for utilization in Professional Development and opened a Texas location. At the same time, the printing services were outsourced to a national printing firm to allow the Institute to move to a print-on-demand structure. These two initiatives supported the core values of Continuing Education and Lifelong Learning identified in the Vision.

Among the core services identified in the Vision were Assurance and Information Integrity, and Management Consulting and Performance Management. To support these services, the Institute, while continuing work on the *CPA WebTrust*, has further established *CPA ElderCare Services*; Systems Reliability; and Business Performance Measures. *The AICPA Competency Tool* has been developed and a new Web site is ready for launch in Fiscal 2000. To serve members better, the One-Stop Shopping Telephone Menu was enhanced, and in October 1998, the National Accreditation Commission was established to develop the process to recommend and implement specific accreditations.

Continuing the emphasis on serving the public interest, the Institute, as part of the Committee of Sponsoring Organizations of the Treadway Commission, commissioned research and produced a publication entitled, *Fraudulent Financial Reporting: 1987–1997 An Analysis of U.S. Public Companies*. During the year the Institute issued guidance on Year 2000 (Y2K) disclosures and revenue recognition issues, and supported the SEC Panel on Audit Committees and the ongoing activities of the Independence Standards Board.

As shown in the financial statements, operating expenses exceeded revenue (including interest and dividends) by approximately $5.3 million in 1999 as compared to $2.3 million in 1998. The 1999 results, which include the new and expanded initiatives noted above, reflect the Institute's commitment to apply resources to member programs and services, as well as invest in technology-related activities. Realized and unrealized gains (losses) on marketable securities were $3.0 million in 1999 as compared to $4.4 million in 1998. The 1998 results reflect the realignment of the portfolio.

Operating revenue was $146.7 million in 1999 and $143.3 million in 1998. Dues revenue was higher due to increased AICPA membership and an additional SECPS dues increase to further support the work of the Independence Standards Board. Publications and software revenue were lower, partly due to the sale of the AICPA-developed software products. The software was sold to concentrate more on identifying appropriate software to be made available to members instead of internally developing software products. Professional development revenue grew due to the purchase of the assets from the Professional Development Institute (PDI) and increased member response to conferences and self-study programs. Investment and sundry income is higher due to the gain related to the sale of the AICPA-developed software products and higher affinity program revenue offset by the discontinuance of the Tax Information Phone Service program.

Operating expenses of $152.1 million in 1999 reflect an increase of $6.4 million from 1998. Thirty-six percent of this increase was to enhance technology as the Institute invested funds to computerize the CPA examination and improve internal systems to better serve members. An additional twenty-eight percent of the increase was related to the regulation, legislation and technical components of member services for new assurance services, the National Accreditation Commission, international initiatives, and operations and projects of the Public Oversight Board and the Independence Standards Board.

As a result of the previously mentioned increase in operating expenses, cash flow provided by operating activities was approximately $2.6 million in 1999 compared to $10.4 million in 1998. Investments were made in the purchase of amortizable assets and equipment related to technology, which were funded by the cash flow from operating activities and the liquidation of marketable securities. Recognizing the volatility of the market, the Institute, by policy, attempts to limit exposure to market risk and does not believe a downward trend in market conditions will materially affect its overall financial position.

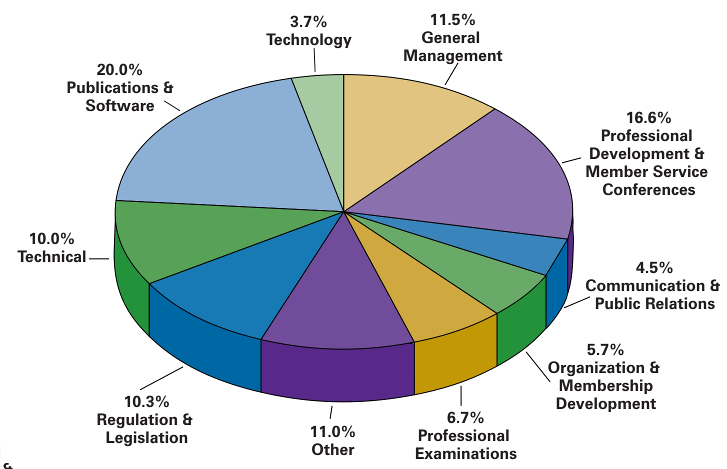
The Institute completed a comprehensive review of its information systems, operations and third-party relationships to ensure the Institute's Y2K readiness. A cross-functional team, coupled with dedicated staff, on an ongoing basis, are confirming the completeness of the Institute's Y2K plans. The Institute's information technology teams continue to manage system changes to ensure that applications remain compliant. The major focus of efforts this past year was business risk management, and contingency planning. Contingency plans have been refined and are in the process of being tested.

At September 1, 1999, the status of the Institute's remediation and testing efforts, for both "mission-critical" and "non-mission critical" systems, is approximately 76% complete, and is expected to be fully completed by October 15, 1999. The Institute currently estimates that total Y2K costs will not be material.

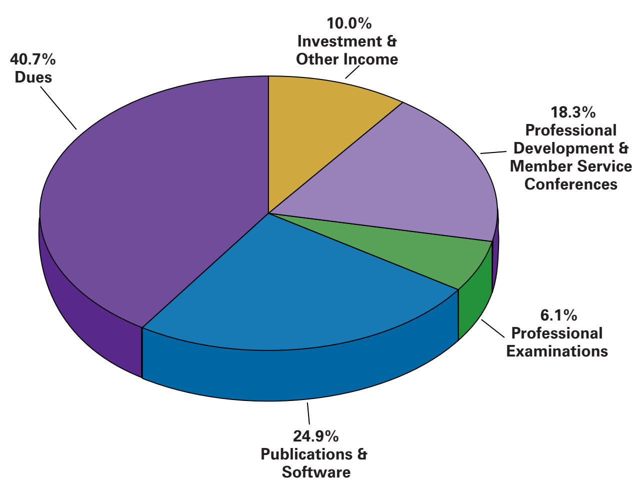
The vendors of the internal systems implemented during 1998 have indicated that these systems are Y2K compliant or will be compliant after maintenance upgrades scheduled during 1999. Those few continuing systems requiring changes are scheduled to become Y2K ready in 1999 with minimal cost. Third parties have been contacted and most have responded with their intent to be Y2K compliant before 2000.

At July 31, 1999, the Institute has a strong financial position with excellent liquidity and was in compliance with the Board of Directors' target of a 20%–25% ratio of net assets to annual revenue. The current liquidity along with anticipated Fiscal 2000 operating and product revenue should be sufficient to finance planned operations. Major initiatives for Fiscal 2000 include aligning AICPA services, products, and the organization with the new Vision, computerization of the CPA Examination, active standards-setting and guidance activities related to ongoing and emerging marketplace issues, expansion of online Internet and intranet services, adoption of a new knowledge management system infrastructure, a new personal financial planning program, and an increase in the Image Enhancement Campaign.

OPERATING EXPENSES BY ACTIVITY



OPERATING REVENUE



Management's Responsibilities for Financial Statements and Internal Control

Financial Statements

The financial statements of the American Institute of Certified Public Accountants and related organizations (the "Institute") were prepared by management, which is responsible for their reliability and objectivity. The statements have been prepared in conformity with 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 independent public accountants and submits its recommendation to the Board of Directors, and then to the Council, for approval.

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

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

Internal Control

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

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

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

The Institute has assessed its internal control over financial reporting in relation to criteria described in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Institute believes that, as of July 31, 1999, its internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition met those criteria.

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

Barry C. Melancon	Clarence A. Davis
President & CEO	*Chief Financial Officer*

Reports of Independent Public Accountants

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, 1999 and 1998, 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 about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the American Institute of Certified Public Accountants and Related Organizations as of July 31, 1999 and 1998, and the results of their activities and cash flows for the years then ended, in conformity with generally accepted accounting principles.

J. H. Cohn LLP

Roseland, New Jersey
September 1, 1999

To the Members of the American Institute of Certified Public Accountants

We have examined management's assertion, included in the accompanying statement of management's responsibilities for financial statements and internal control, that the AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND RELATED ORGANIZATIONS maintained effective internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition as of July 31, 1999 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management is responsible for maintaining effective internal control over financial reporting and over safeguarding of assets, and against unauthorized acquisition, use or disposition. Our responsibility is to express an opinion on the effectiveness of internal control based on our examination.

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

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

In our opinion, the American Institute of Certified Public Accountants and Related Organizations maintained, in all material respects, effective internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition as of July 31, 1999, based upon criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

J. H. Cohn LLP

Roseland, New Jersey
September 1, 1999

Financial Statements
July 31, 1999 and 1998

AMERICAN INSTITUTE OF CERTIFIED PUBLIC
ACCOUNTANTS AND RELATED ORGANIZATIONS

COMBINED STATEMENTS OF FINANCIAL POSITION
JULY 31,

	1999	1998
	($000)	
Assets:		
Cash	**$ 422**	$ 396
Marketable securities	**100,040**	103,221
Accounts and notes receivable (less an allowance for doubtful accounts: 1999, $1,221,000; 1998, $1,188,000)	**14,340**	13,265
Inventories	**2,032**	2,028
Deferred costs and prepaid expenses	**10,252**	5,545
Furniture, equipment and leasehold improvements, net	**20,715**	20,390
Total assets	**$147,801**	$144,845
Liabilities and net assets:		
Liabilities:		
Accounts payable and other liabilities	**$ 18,006**	$ 15,941
Advance dues	**33,640**	30,164
Unearned revenue	**18,895**	19,980
Long-term debt	**1,200**	1,200
Deferred rent	**15,285**	15,489
Deferred employee benefits	**14,898**	13,920
Total liabilities	**101,924**	96,694
Net assets:		
Unrestricted	**45,229**	47,503
Permanently restricted	**648**	648
Total net assets	**45,877**	48,151
Total liabilities and net assets	**$147,801**	$144,845

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

COMBINED STATEMENTS OF ACTIVITIES
YEAR ENDED JULY 31,

Changes in unrestricted net assets:

	1999	1998
	($000)	
Operating revenue:		
Dues	**$ 59,653**	$ 57,338
Publications and software	**36,561**	38,457
Professional development and member service conferences	**26,837**	25,474
Investment and sundry income	**12,958**	11,541
Professional examinations	**9,002**	8,879
Contributions	**1,726**	1,635
Total operating revenue	**146,737**	143,324
Operating expenses:		
Program services:		
Publications and software produced for sale	**23,868**	23,970
Professional development and member service conferences	**25,314**	24,221
Member services:		
Regulation and legislation	**15,720**	14,442
Technical	**15,266**	14,738
Publications	**6,595**	6,550
Other	**8,958**	8,888
Professional examinations	**10,209**	8,952
Communications and public relations	**6,830**	6,479
Support and scholarships	**6,390**	5,914
Assistance programs	**1,145**	1,167
Supporting activities:		
General management	**17,484**	16,985
Organization and membership development	**8,594**	8,658
Technology	**5,687**	4,650
Total operating expenses	**152,060**	145,614
Excess of operating expenses over revenue	**(5,323)**	(2,290)
Gains (losses) on marketable securities:		
Realized	**691**	11,092
Unrealized	**2,358**	(6,707)
Totals	**3,049**	4,385
Increase (decrease) in unrestricted net assets	**(2,274)**	2,095
Unrestricted net assets, beginning of year	**47,503**	45,408
Unrestricted net assets, end of year	**$ 45,229**	$ 47,503

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

	1999	1998
	($000)	
Increase (Decrease) in Cash:		
Operating Activities:		
Cash received from members and customers	**$143,881**	$146,517
Interest and dividends received	**4,040**	4,846
Cash paid to suppliers, employees and other	**(145,103)**	(140,263)
Interest paid	**(61)**	(60)
Income taxes paid	**(114)**	(626)
Net cash provided by operating activities	**2,643**	10,414
Investing Activities:		
Payments for purchase of amortizable assets	**(3,881)**	(1,998)
Payments for purchase of equipment	**(4,969)**	(3,118)
Payments for purchase of marketable securities	**(330,508)**	(200,513)
Proceeds from sale of marketable securities	**336,741**	194,751
Net cash used in investing activities	**(2,617)**	(10,878)
Net increase (decrease) in cash	**26**	(464)
Cash, beginning of year	**396**	860
Cash, end of year	**$ 422**	$ 396
Reconciliation of increase (decrease) in unrestricted net assets to net cash provided by operating activities:		
Increase (decrease) in unrestricted net assets	**$ (2,274)**	$ 2,095
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization:		
Furniture, equipment and leasehold improvements	**4,723**	4,285
Internal computer systems	**729**	460
Gain on sale of marketable securities	**(691)**	(11,092)
Amortization of unearned revenue	**(1,719)**	(1,040)
Unrealized (gain) loss on marketable securities	**(2,358)**	6,707
Provision for:		
Losses on accounts and notes receivable	**198**	127
Obsolete inventories	**757**	775
Deferred rent	**(204)**	(160)
Deferred employee benefits	**1,315**	1,666
Changes in operating assets and liabilities:		
Accounts and notes receivable	**(1,354)**	493
Inventories	**(761)**	(786)
Deferred costs and prepaid expenses	**(1,633)**	(140)
Accounts payable and other liabilities	**2,143**	(1,478)
Advance dues	**3,476**	1,749
Unearned revenue	**633**	7,026
Deferred employee benefits	**(337)**	(273)
Total adjustments	**4,917**	8,319
Net cash provided by operating activities	**$ 2,643**	$ 10,414

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

Notes to Combined Financial Statements July 31, 1999 and 1998

1. Summary of Significant Accounting Policies

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 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 enable them to provide services in the highest professional manner. The Division, consisting of both the PCPS/Partnering for CPA Practice Success, the AICPA Alliance for CPA Firms ("PCPS") and the SEC Practice Section ("SECPS"), 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, including minority initiatives.

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.

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with unrealized gains and losses included in the statement of activities.

Contributions are recorded as unrestricted, temporarily restricted or permanently restricted when received depending on the existence and/or nature of any donor restrictions.

A large number of people have contributed significant amounts of time to the activities of the Institute. The financial statements do not reflect the value of these contributed services because they do not meet the recognition criteria of Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made* (SFAS No. 116).

Financial statement presentation follows the recommendations of Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations* (SFAS No. 117). Under SFAS No. 117, an organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Financial instruments, which potentially subject the Institute to concentrations of credit risk, include temporary cash investments, 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 also limited because the Institute deals with a large number of customers in a wide geographic area. Consequently, as of July 31, 1999, 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 and software used for the Institute's internal reporting and management functions are deferred and amortized on the straight-line method over a three to five year period that begins when the system becomes operational.

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.

Research and development costs related to the computerization of the CPA examination amounted to $754,000 for the year ended July 31, 1999.

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.

Certain accounts in the 1998 financial statements have been reclassified to conform with the current year's presentation.

2. Marketable Securities

Marketable securities consist of:

	1999	1998
	($000)	
U.S. Treasury obligations	**$ 34,008**	$ 34,881
Bonds and notes	**27,483**	34,905
Equities	**38,549**	33,435
Total fair value	**100,040**	103,221
Excess of fair value over cost	**4,459**	2,101
Total cost	**$ 95,581**	$101,120

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

Investment income consists of:

	1999	1998
	($000)	
Dividends and interest	**$4,040**	$ 4,277
Realized gains	**691**	11,092
Unrealized gains (losses)	**2,358**	(6,707)
	$7,089	$ 8,662

3. Inventories

Inventories consist of:

	1999	1998
	($000)	
Paper and material stock	**$ 312**	$ 400
Publications in process	**396**	468
Printed publications and course material	**1,324**	1,160
	$2,032	$2,028

4. Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements consist of:

	1999	1998
	($000)	
Furniture and equipment	**$31,313**	$27,218
Leasehold improvements	**16,720**	15,858
	48,033	43,076
Less accumulated depreciation and amortization	**27,318**	22,686
	$20,715	$20,390

5. Long-Term Debt

Long-term debt consists of a note bearing interest at 5%, payable monthly, through February 15, 2013, when the entire principal balance is due. The note is secured by equipment with a net book value of $980,000. Based on borrowing rates currently available, the fair value of the note at July 31, 1999 is approximately $885,000.

6. Lease Commitments

The Institute has several long-term leases for the rental of real estate. The leases include provisions for the abatement of rental payments, amounts to be paid to the Institute by the landlords, as well as scheduled base rent increases over the respective lease terms.

The total amount of the base rent payments, net of the amounts to be paid to the Institute by the landlords, is being charged to expense using the straight-line method over the respective lease terms. The accumulated result of using the straight-line method of expensing rent in excess of actual rental payments amounted to $15,285,000 and $15,489,000 as of July 31, 1999 and 1998.

Minimum rental commitments on noncancellable real estate and equipment leases in effect as of July 31, 1999, exclusive of future escalations for real estate taxes and building operating expenses, are:

Year Ending July 31

	($000)
2000	$ 9,773
2001	9,405
2002	8,837
2003	8,998
2004	8,923
Years subsequent to 2004	57,348
	$103,284

Rental expense for the years ended July 31, 1999 and 1998 was $11,114,000 and $10,715,000.

7. Employee Benefit Plans

The Institute sponsors a noncontributory defined benefit pension plan for substantially all employees. The following table sets forth the plan's funded status and the amounts recognized in the statement of financial position:

May 1,	**1999**	1998
	($000)	
Projected benefit obligation	**$49,376**	$43,647
Plan assets available for benefits at fair value	**58,983**	57,563
Plan assets in excess of projected benefit obligation at end of year	**$ 9,607**	$13,916
Accrued pension cost	**$(5,161)**	$ (4,635)

Net pension expense for the years ended July 31, 1999 and 1998 was $526,000 and $814,000. Benefits paid amounted to $1,835,000 and $2,000,000. There were no employer contributions in 1999 and 1998.

Economic Assumptions:		
Discount rate	7.00%	7.00%
Expected long-term rate of return on plan assets	9.00%	9.00%
Rate of increase in future compensation levels	4.65%	4.75%

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 $911,000 and $849,000 for the years ended July 31, 1999 and 1998.

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

Net postretirement benefit cost for the years ended July 31, 1999 and 1998 was $789,000 and $852,000.

The accumulated postretirement obligation as of May 1, 1999 and 1998 was $7,813,000 and $7,774,000. Accrued postretirement benefit costs included in the accompanying statement of financial position were $9,737,000 and $9,284,000.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7% in 1999 and 1998.

The weighted average health care cost trend rate used in measuring the postretirement benefit expense was 7% and 7.5% in 1999 and 1998, gradually decreasing to 5% in 2004 and remaining at that level thereafter.

The Institute funds the cost of these plans on the cash basis and in 1999 and 1998 paid $336,000 and $273,000.

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 1999, the Institute also made a $95,000 commitment in support of the work of the GASB.

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 $2,850,000 for the calendar year 1999. The ARA also makes a best efforts commitment to raise funds for support of the GASB. The commitment is $490,000 for the calendar year 1999. It is anticipated the ARA will continue to support the FASB and GASB.

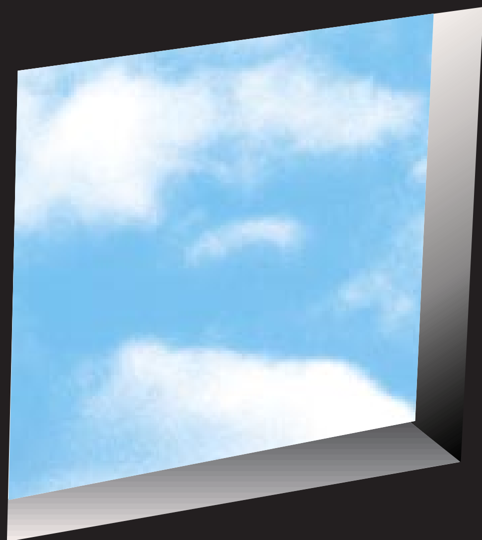
9. Net Assets

Net assets and changes in net assets for the years ended July 31, 1999 and 1998 follow:

	Balance August 1, 1997	Increase (Decrease)	Balance July 31, 1998	Increase (Decrease)	Balance July 31, 1999
			($000)		
Unrestricted:					
AICPA	$36,261	$1,324	$37,585	$(2,186)	$35,399
Division	2,540	31	2,571	(695)	1,876
ARA	1,097	(94)	1,003	(24)	979
Benevolent Fund	3,136	222	3,358	244	3,602
Foundation	2,374	612	2,986	387	3,373
	45,408	2,095	47,503	(2,274)	45,229
Restricted:					
Foundation:					
Library Fund	648	—	648	—	648
	$46,056	$2,095	$48,151	$(2,274)	$45,877

The Foundation's restricted net assets represent a permanent endowment fund, the income of which is unrestricted.

AICPA Board of Directors 1998–99



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