EACH DAY

EVERY DAY...

CPAs ARE HERE.

ANNUAL REPORT 2001–2002

AICPA

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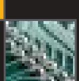
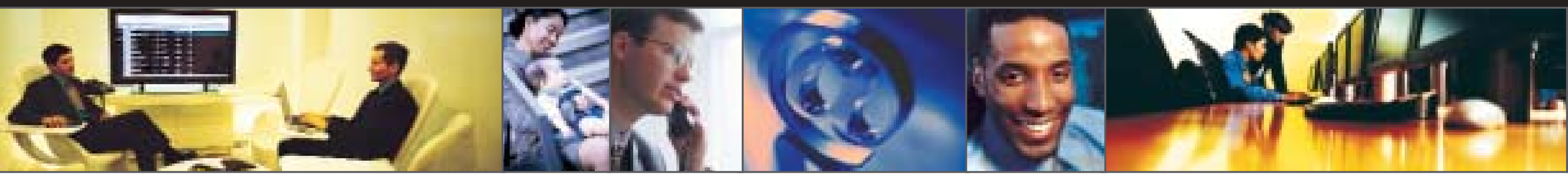
CONTENTS



THE YEAR



- Enron announces restatement of financial reports, triggering a period of unprecedented scrutiny of the CPA profession and public company auditor performance. The American Institute of Certified Public Accountants (AICPA) devotes many of its resources to rebuilding the public trust in the capital market system and the profession, preserving the rights of states to license CPAs and protecting smaller firms from the cascade effect. Staff, committee members, Key Persons and other volunteers collectively spend thousands of hours working with Congress, meeting with the media and analyzing the issues.

- Facing intense media and congressional attention, the AICPA works to keep the profession together on major reform issues while addressing public interest matters. Although its role and activities are overshadowed by the media's focus, the Institute responds to over a thousand media inquiries and calls for and supports many of the reforms ultimately enacted in the summer of 2002.

- One of the reforms the AICPA recommends is a private-sector regulatory body to oversee the discipline and quality monitoring of public company audit firms. This idea evolves into the Public Company Accounting Oversight Board embodied in the Sarbanes-Oxley Act of 2002, which puts forth the most sweeping changes introduced to the accounting profession since 1933.

- The Institute initiates an aggressive media campaign to help rebuild the public trust in the services CPAs provide employers and clients every day. Radio and television interviews, as well as print ads in both national and local newspapers, share the message that CPAs can be counted on for their integrity, are passionate about getting it right, and intolerant of those who break the rules. In addition, AICPA leaders meet with the editorial boards of prominent national publications to educate them about the profession's core values and commitment to public service.

- To help keep members informed during this critical time, the AICPA introduces the *AICPA News Update*. This e-newsletter provides breaking news, as well as information on developing legislation and changes to the regulatory framework of the profession.

- In an effort to protect companies subject to "Yellow Book" audits, the Institute, with the help of its members, reaches out to the General Accounting Office (GAO) for clarification of a new independence standard. As a result, the GAO issues more precise guidance on how to effectively implement the new rule. The guidance clears up key issues about the rule's unintended consequences for smaller entities and helps members understand and comply with the standard.

- The Auditing Standards Board (ASB) issues a new fraud audit standard in the fall of 2002. The standard provides enhanced guidance to auditors in fulfilling their responsibility as it relates to detecting material fraud in a financial statement audit. The ASB also reviews the auditor's consideration of the risk assessment process, including a necessary understanding of an entity, its environment and response to risk, and how to use the assessment to determine auditing procedures.

- The AICPA brings together the University of Texas at Austin and the Association of Certified Fraud Examiners to begin groundwork on a new Institute for Fraud Studies. The organization will sponsor or conduct research in fraud prevention and detection.

- To help members in business and industry navigate ethics challenges, the AICPA creates an "Ethics Decision Tree." The tree reminds members of the importance of corporate accountability at every level, from boards of directors to management and administrative workers. Other new initiatives for business and industry members include an electronic biweekly newsletter that keeps members better informed of pertinent developments and a survey that sheds light on the attitudes and needs of this member group.

- The Institute moves to improve the transparency, reliability and timeliness of the business reporting model. Building on the current framework, the new model will help investors make more informed decisions and regain confidence in the U.S. capital markets. In collaboration with the Canadian Institute of Chartered Accountants and other accountancy

IN BRIEF

institutes, the AICPA creates the Value Measurement and Reporting Collaborative (VMRC). The VMRC will develop a framework for real-time financial reporting providing a broader "bandwidth" of information, including both financial and nonfinancial measures, and understandable disclosures.

- With its promise of real-time financial reporting, XBRL (eXtensible Business Reporting Language) moves to center stage in the business world. The Federal Deposit Insurance Corporation, Moody's, Microsoft, Reuters, NASDAQ and Deutsche Bank, among many others, announce that they are using XBRL in their financial disclosures. More than 150 international companies and organizations now belong to the AICPA-founded consortium that continues to develop the XML-based business reporting standards.

- Bringing together 16 other accountancy institutes, the AICPA Member Innovation Team forms the International Innovation Network. This new global organization works to build market acceptance of assurance and advisory services offered by accountants around the world.

- To help those directly affected by the events of September 11, the AICPA establishes the CPAs in Support of America Fund, Inc. and offers additional assistance programs to its members. With CPA2Biz, the Institute creates a Web-based Disaster Recovery Resource Center to help guide CPAs through related professional and personal issues.

- After starting a five-year, $25 million student recruitment initiative, the AICPA quickly wins two notable "Reggie" awards from the Promotion Marketing Association. The multimedia campaign, which directly targets high school and college students, receives bronze for Multi-Partner Promotion and silver for New Media Promotion. In its first year, this unique recruitment campaign reaches more than 8.5 million high school juniors and seniors and 1.2 million college students.

- Advertisements for the AICPA's national CPA image enhancement campaign continue to emphasize the invaluable business knowledge and expertise that CPAs bring to small businesses and individuals. The ads appear on network radio during Major League Baseball's World Series and other major sporting events, as well as during general news, business and financial programs. The image campaign's partnership program with the state CPA societies boosts local media placements.

- The Institute continues to move forward with the computer-based Uniform CPA Examination with an early 2004 commencement date. The new 14-hour test will allow for effectively assessing many strategic competencies necessary for CPAs, such as organizational and communications skills, research and analysis, and knowledge of professional standards.

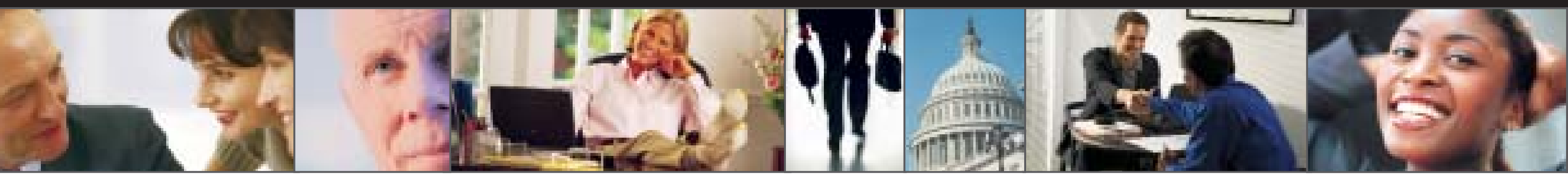
- In an effort to persuade the federal government to simplify the tax code, the AICPA releases *Tax Policy Concept Statement #2 — Guiding Principles for Tax Simplification.* The AICPA continues to work diligently to get its recommendations enacted.

- The AICPA Board of Directors approves a strategic plan for the Institute's international activities. The plan aims to enhance the AICPA's role and influence in international standard setting and oversight of professional performance, discipline and education.

- CPA2Biz, the exclusive distributor of AICPA products and services, merges with Rivio, Inc. The combined companies improve online design and navigation and bring more visitors to www.cpa2biz.com. New strategic alliances expand the offerings available to CPAs for their small business clients and employers.

- PCPS, the AICPA Alliance for CPA Firms, commemorates its 25th anniversary. Originally established as a voluntary quality assurance program, today PCPS focuses squarely on providing advocacy, tools and resources to its membership of 6,000 local and regional firms.

CHAIR AND



A MESSAGE TO MEMBERS FROM THE...

**James G. Castellano, Chair, and
Barry C. Melancon, President and CEO**

Looking back on this challenging year for the accounting profession, our message to CPAs across America remains simple and clear: We are proud to be CPAs. We are proud to be part of a profession that has been characterized for over a century by the core values of *integrity, competence and objectivity.* We are proud of the 350,000 AICPA members who are, as the vision statement that grew out of the grassroots efforts of CPAs across the nation says, *trusted professionals who enable people and organizations to shape their future.* This year's annual report celebrates all of the hardworking CPAs whose primary mission is — and always has been — to uphold the public trust.

We say this knowing full well what the past year has been like for all who are proud to call themselves CPAs. The revelations of financial abuse following Enron, WorldCom, and other high-profile business failures have been a traumatic blow for all of us. It has called into question the very hallmarks of the CPA profession: our long history of self-regulation and our reputation as guardians of the public trust. This sea of criticism has resulted in unprecedented change. On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act, which includes the most far-reaching changes our profession has experienced since the Securities Acts of 1933 and 1934.

Our profession enters uncharted waters with the new law, particularly in the areas of standard setting and peer review related to public companies and public company auditors. It includes many provisions that the profession supported and some that we questioned. But make no mistake: It is now the law, and we will stand by it and work to implement it. We will continue to rebuild the faith of investors who depend on CPAs for information critical to the success of America's capital markets.

The AICPA has walked a difficult road this year, determined to do right by the public and the honorable men and women of the profession. We have called for meaningful reforms that strengthen the capital market system, protect the public interest, and increase confidence in the accounting profession. From a public accounting perspective, we also sought to balance the interests of the approximately 900 firms that audit public companies and the approximately 44,000 that serve small businesses exclusively. It was, for example, our proposal to have a private-sector public accountability board oversee the discipline and quality monitoring of public company audit firms. This idea became the Public Company Accounting Oversight Board embodied in the Sarbanes-Oxley Act. The board moves the discipline and quality monitoring of firms auditing public companies from public oversight to public participation.

PRESIDENT

In numerous media interviews and in testimony before Congress, we also supported restricting auditors of public companies from performing certain non-audit services that the public perceived as a conflict of interest. We recommended that audit committees, not management, hire the auditor, and spoke out about limiting the composition of audit committees to individuals independent of management who are knowledgeable and experienced in financial matters. And we asked for strong penalties for anyone who supplies false information to or misleads their auditors. Congress ultimately heard our calls, incorporating many of our goals into the final Sarbanes-Oxley Act.

As we all move forward during these complex times, the AICPA is here as the national professional organization for CPAs to support members and help them navigate the new environment. Toward this goal, we have created several resources. One is a toll-free hotline for questions members may have about the new law, how it will be implemented and how to comply. Other new resources include periodic Webcasts to brief members on emerging issues, as well as short video clips and news alerts sent to members through e-mail.

While the legislation brings a new regulatory environment for our profession, it also offers some unexpected opportunities. The potential to significantly raise the value of the audit so that it is never again described as a commodity is very real. As auditors, we have a unique opportunity to uphold the public interest because of our incredible privilege of accessing intimate financial and operational information. We should seize this privilege to deliver more value to the stakeholders of the audit, especially shareholders. In addition, we are in the right place to improve the reliability of reported information by doing an even more effective job of detecting material misstatements arising from fraud.

These are the kinds of opportunities our profession must embrace to increase investor confidence in the capital markets and in the audit function. But restoring the public's faith, and the faith of our members, in the honorable credential of CPA also is a high priority. As CPAs, we must reclaim our most priceless asset: our reputation. We must all work to restore accounting's heritage as the bedrock of business integrity.

Without doubt, the vast majority of CPAs stand by our values, serve the public interest and make hard, ethical decisions without hesitation each and every day. But this is no excuse for the handful who have not. Our position is clear: This profession and its professional association cannot and will not tolerate any member who seeks to commit fraud. Nor will we tolerate any AICPA member who performs substandard work and veers away from the fundamental code of ethics and responsibilities that have defined the profession.

The next step for all CPAs is to work together to rejuvenate the accounting culture. For over a hundred years, our profession's culture has been shaped by a commitment to accuracy and a passion for getting it right. CPAs have shared a belief in the rules and a zeal for applying them. That creed has governed the AICPA and its members from the very beginning. And it is the creed we stand by — and we are very proud of — today.

We have devoted substantial efforts this year to responding to Enron and other business reporting failures, but we also have continued to move forward with many other initiatives that protect the public interest, strengthen our profession, and reach out to the next generation of CPAs. These pages detail many of these successes — from XBRL to a new privacy task force to our award-winning student recruitment campaign. We hope you will enjoy reading about the wide range of AICPA activities.

James G. Castellano, CPA
Chair

Barry C. Melancon, CPA
President & CEO

AN UNPRECEDENTED TIME BRINGS THE PROFESSION'S UNPRECEDENTED RESPONSE

When Enron collapsed in December 2001, Americans everywhere felt the effect. CPAs across the country reeled too as revelations of corporate scandal and daily financial restatements emblazoned newspaper headlines and filled television and radio airwaves. Long regarded as America's most trusted financial advisors, the CPA profession was suddenly being criticized in the media and on Capitol Hill. For many CPAs, Enron and the ensuing business failures became an attack on personal pride.

> **"The AICPA has a long history of meaningful advocacy for maintaining the highest standard of financial reporting. CPAs are bound by a code of professional ethics that puts the public interest first."**
>
> *James G. Castellano, to the Senate Banking Committee, March 14, 2002*

Restoring that pride — and the faith of all Americans in the capital markets and the accounting profession — has been, since Enron first made the news, the primary mission of the AICPA. The Institute responded immediately to the crisis, doing what it does best: serving as an advocate for the public interest and for the profession. Committing thousands of volunteer and staff hours to educating and testifying before Congress, working with the media, analyzing the issues and identifying new reforms, the AICPA moved to reclaim the CPA's rightful heritage as guardian of the public trust. While some of these efforts were overshadowed by other events, the AICPA never wavered in its goals.

SUPPORTING MEANINGFUL REFORM

The AICPA took the first step toward reform in January 2002 when it began to work with the Securities and Exchange Commission to help identify initiatives that would restore investor faith in the financial reporting system and strengthen the accounting profession. A month later, the AICPA introduced a series of reforms.

What the Institute advocated was unprecedented reform of the accounting and auditing system. Shortly after Enron's collapse in December, the AICPA realized that the public relying on the services of public company auditors no longer accepted the self-regulatory structure that had been a hallmark of the profession since its beginning. In testimony before Congress and in interviews and articles, AICPA Chair James G. Castellano and President and CEO Barry C. Melancon supported a new regulatory framework for the CPA profession that would:

- Create a new private-sector regulatory body responsible for the discipline and quality monitoring of firms auditing public companies.
- Move from public oversight to public participation in certain elements of regulation of public company auditors.
- Restrict auditors of public companies from performing certain non-audit services that the public perceives as a conflict of interest.
- Limit the composition of audit committees to individuals independent of management, knowledgeable and experienced in financial matters and able to engage in constructive dialogue and make informed decisions.

In response to a variety of proposals being developed, the Institute created a public interest test that asked four basic questions:

- Will it help investors make informed investment decisions?

THE ROAD TO THE SARBANES-OXLEY ACT OF 2002

OCTOBER 2001

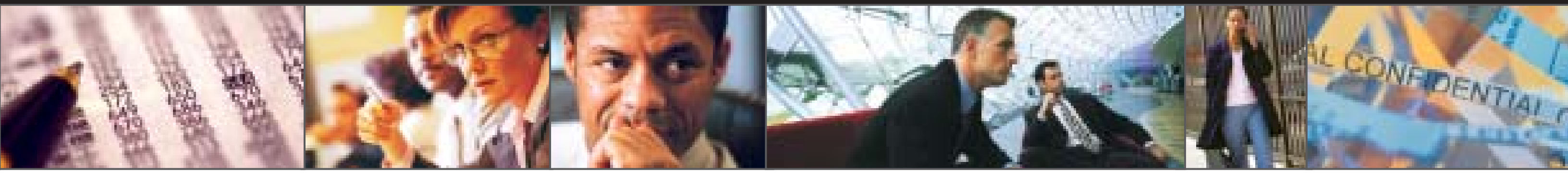
- **Enron reports (10/16) a $638 million third-quarter loss and a $1.2 billion reduction in shareholder equity.**
- **Enron announces (10/31) investigation by the SEC.**

NOVEMBER 2001

- **Enron revises (11/8) its financial statements for the past five years to account for $586 million in losses. Its credit rating is downgraded to junk bond status, and Enron's stock falls below $1.**

DECEMBER 2001

- **Enron files (12/2) for Chapter 11 bankruptcy protection and announces (12/3) more than 4,000 layoffs. House and Senate committees hold hearings on Enron's collapse.**
- **AICPA releases (12/4) a statement on Enron and audit quality containing proposals for year-end audits regarding related parties, special purpose entities and risk factor assessments. The statement also outlines related ASB agenda items on fraud, interim financial statement reviews and risk assessments regarding material misstatements.**



- Will it enhance audit quality and the quality of financial reporting?
- Will it help restore confidence in the capital markets, our financial reporting system and the accounting profession?
- Will it be good for America's financial markets and economic growth?

The changes the AICPA suggested became important elements of the legislation developing in the House and Senate throughout the spring. In the end, all of the AICPA-recommended reforms were included in some form in the legislation that President Bush signed into law on July 30, 2002 — the Sarbanes-Oxley Act of 2002.

The Sarbanes-Oxley Act represents some of the most sweeping reforms ever introduced to the accounting profession and the business world, many of which the AICPA supported and some it did not. Essentially, the Act creates a five-member Public Company Accounting Oversight Board, which has the authority to set, adopt and enforce auditing, attestation, quality control, and ethics standards, as well as impose sanctions for violations. The Act restricts some of the consulting work auditors can perform for their public audit clients. It also establishes harsh penalties for securities law violations, corporate fraud and document shredding.

One concern about the legislation is how its provisions will be reflected by the states. The Sarbanes-Oxley Act could become the template for parallel state legislation or rule changes that directly affect both nonpublic companies and the CPAs who provide services to them. The provisions that impose scope of services restrictions, for example, could have a substantial impact on small businesses and accounting firms. Several states are currently moving forward with legislation that could result in additional costs for clients and burdens for businesses.

Another concern relates to how restricted non-audit services are defined and interpreted. The Act lists nine types of services that are "unlawful" if provided to a publicly held company by its auditor: bookkeeping, information systems design and implementation, internal audits, appraisals or valuation services, actuarial services, management and human resources services, broker/dealer and investment banking services, legal or expert services related to audit services, and a catch-all category of services the board determines by rule to be impermissible. Other non-audit services not banned are allowed if pre-approved by the audit committee. "Expert" services are not defined in the Act. Some tax services currently viewed as traditional could be construed as "expert" services, and not permitted by any firm providing audit services to publicly held audit clients.

> **"We have 350,000 men and women in the AICPA across this country drawing the line in the sand, doing the right thing, servicing small business, giving good solid advice to help the economy all along the way and we can't lose that through this process."**
> ***Barry C. Melancon, CNBC, February 1, 2002***

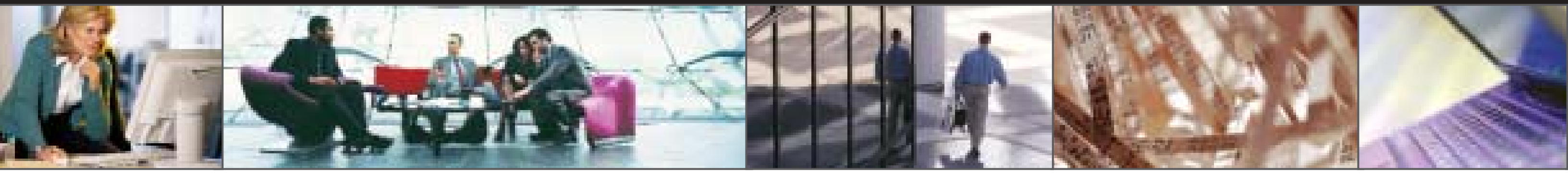
The move to reform brought one early consequence. After 20 years of excellent service to the profession,

JANUARY 2002

- **AICPA issues (1/7) a related-party toolkit.**
- **The Justice Department confirms (1/9) investigation of Enron.**
- **Andersen admits (1/10) shredding documents.**
- **In a letter to its members, the AICPA announces (1/16) its support of a new regulatory model for public company auditors.**
- **SEC Chairman Harvey Pitt unveils (1/17) a proposal to restructure the accounting profession's quality monitoring and disciplinary processes and bolster public and investor confidence in auditing and financial reporting.**

FEBRUARY 2002

- **The AICPA announces (2/1) that it will not oppose federal legislation restricting the scope of services that accountants may provide their public audit clients, specifically in financial systems design and implementation and internal audit outsourcing.**
- **The SEC begins (2/8) investigating Global Crossing.**
- **The Senate Banking Committee begins (2/12) hearings on accounting and investor protection issues.**
- **The Senate Commerce Committee begins (2/13) hearings on the Enron matter.**
- **HR 3763 is introduced (2/14) by Rep. Michael G. Oxley (R-Ohio) and is referred to the House Committee on Financial Services for hearings.**
- **In testimony before the House Commerce Committee, AICPA Chair James G. Castellano calls (2/14) for reform, including the creation of a new regulatory framework for the CPA profession.**
- **AICPA develops and distributes (2/21) virtual toolkits for members to use in communicating about the Enron crisis and proposals for reform.**



The AICPA conducted several hundred interviews and handled more than a thousand media calls. The Institute's "Each Day, Every Day" ad appeared in such prestigious newspapers as *The Wall Street Journal, The New York Times* and the *Chicago Tribune.*

the Public Oversight Board of the AICPA SEC Practice Section announced that it would disband. The decision was a difficult one. Responding to recommendations to change the regulatory system of the profession from public oversight to public participation dominated by non-accountants, the POB concluded that the proposal did not "include a place" for them. Although the AICPA and SEC requested that the POB remain in place, a majority of the board voted to terminate. Prior to the POB's dissolution on May 1, 2002, however, its staff agreed to continue oversight activities until a new regulatory structure was in place.

PROTECTING LOCAL ACCOUNTING FIRMS AND SMALL BUSINESSES

Throughout the legislative process that resulted in the Sarbanes-Oxley Act of 2002, the AICPA continually emphasized that reforms should only target public companies and their auditors — not private-sector businesses. Concerned about the cascade effect whereby new legislation by Congress could quickly be adopted by other government agencies and state legislatures and regulators, the Institute moved to try to protect local accounting firms and their small business clients from scope-of-services restrictions. These efforts followed the AICPA's work on the final standards on auditor independence issued by the General Accounting Office (GAO) in January 2002. With input from members, the AICPA addressed serious concerns about how the standards could impact small CPA firms. In response, the GAO provided guidance on key issues, adopting principles-based rules, as well as a set of required safeguards, and questions and answers to help implement them. In addition, the AICPA and the GAO joined together to host a live, interactive Webcast in August 2002.

SHARING THE PROFESSION'S CORE VALUES

The profession's indisputable goal from the beginning was to increase the public faith in the capital market system and the accounting profession. To share this message, the AICPA conducted several hundred interviews and handled more than a thousand media calls. The Institute's "Each Day, Every Day" ad appeared in such prestigious newspapers as *The Wall Street Journal, The New York Times* and the *Chicago Tribune.*

The Institute also initiated meetings with the editorial boards of national publications to educate them about the profession's core values and intolerance for CPAs who break the rules. The message was clear: The profession always has and always will stand by its core values of integrity, competence and objectivity. Hundreds of thousands of CPAs embody these values and make hard, ethical decisions without hesitation each and every day. Unfortunately, during the spring and summer, new allegations of financial abuse from WorldCom and other companies became known, and the ensuing media and political frenzy drowned out the profession's message.

PROVIDING RESOURCES FOR MEMBERS

From the first news story on Enron, the AICPA moved to support CPAs in every segment of the profession. Within weeks of Enron's bankruptcy filing, the Institute provided information and technical assistance to help members weather the turbulent times. These included:

- Guidance on related-party transactions to help CPAs comply with auditing and accounting standards.

MARCH 2002

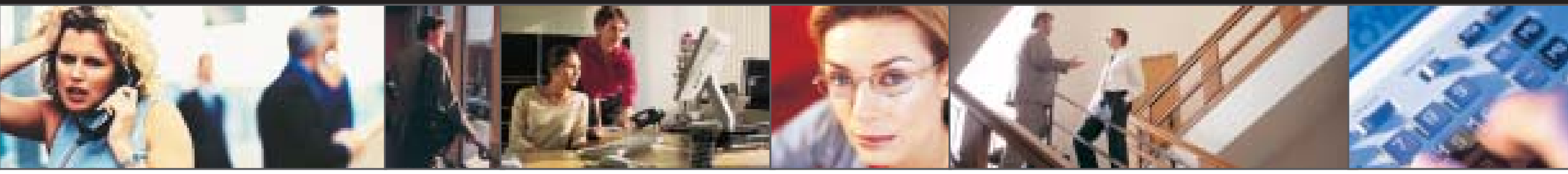
- **A federal grand jury indicts (3/7) Andersen for obstruction of justice for destroying Enron-related documents.**
- **The House Committee on Financial Services, chaired by Rep. Oxley, holds (3/13) hearings on HR 3763.**
- **In testimony on Capitol Hill, AICPA representatives support (3/14) meaningful reforms to increase audit quality and corporate accountability. The Institute proposes a four-point public interest test to evaluate reform proposals.**
- **The SEC conducts (3/4, 3/6, 4/6) three accounting roundtables in March and April.**

APRIL 2002

- **HR 3763, known as the Oxley Bill, is passed (4/24) by the House of Representatives by a vote of 334 – 90. The Senate receives the bill and refers it to the Committee on Banking, Housing and Urban Affairs.**

MAY 2002

- **The SEC Practice Section of the AICPA, in a move to ensure even greater attention is paid to audit firm quality control systems, issues (5/8) guidance for U.S. audit firms.**
- **Senator Paul Sarbanes introduces S 2673 to the Senate Banking Committee. The committee schedules (5/21), then cancels, a markup session.**



- Information for industry audit guides for energy and commodity contracts.
- Best practices guidance covering the elements of a firm's quality control system that could be affected by the addition of new public company clients and/or professional staff.
- A virtual toolkit designed to help CPAs respond to client, employer and customer questions.
- An electronic newsletter, *AICPA News Update,* to keep members informed about legislative developments and changes to the profession's regulatory system.
- Articles published in the *Journal of Accountancy* and in *The CPA Letter,* among other publications, to educate and inform members about the changing environment.
- Online news at www.aicpa.org where members and the public could go for the latest updates and information on the accounting profession.

After the Sarbanes-Oxley Act was signed into law, the Institute created additional resources to help members work through the legislation:

- A special toll-free hotline for members to ask questions about the legislation's provisions and the impact on their firms or organizations.
- Conference calls for members of the SEC Practice Section and the PCPS Alliance for CPA Firms that focus on the new law and give these members an opportunity to ask questions.
- Additional online resources, including periodic Webcasts to brief members on emerging issues, as well as short video clips and news alerts sent to members through e-mail.
- "The State of the Profession…Preparing Today for Tomorrow," a conference for firm leaders that focuses on the reforms on Capitol Hill, the latest developments in the profession and perspectives from government and legislative leaders. It also provides a forum for questions through an interactive Town Hall meeting.
- A speech at the Yale Club in New York City on September 4, 2002, where AICPA President and CEO Barry C. Melancon unveiled a series of initiatives designed to strengthen investor confidence by enhancing the quality of audits. Members were sent letters about the speech, which was posted to www.aicpa.org.

Going forward, the AICPA will continue to develop resources that help members adjust to the new regulatory environment and work to increase public confidence in the profession. And the Institute will continue to study and respond to some of the unexpected opportunities arising from the year's events.

The first is the potential to significantly raise the value of the audit and the prestige of the audit professional. For some, the audit had become a commodity, but with its public interest responsibility underscored, that trend appears to be reversing.

The second is a surprising growth in student interest in the CPA profession. The news reports have made many students aware of the tremendous impact CPAs have upon business success and the capital markets. University administrators say that accounting and business programs are seeing a rush of new students, and not just in business ethics courses. Even introductory accounting classes are experiencing a surge. ■

The AICPA will continue to develop resources that help members adjust to the new regulatory environment and work to increase public confidence in the profession.

JUNE 2002

- **Andersen is found (6/15) guilty of obstruction of justice in connection with the investigation into the Enron bankruptcy.**
- **The AICPA announces (6/18) Andersen will no longer be eligible to perform public company audits and is resigning from the SEC Practice Section.**
- **Senate bill S 2673 is marked up by the Senate Banking Committee and is reported (6/18) to the full Senate. A number of amendments are introduced on the Senate floor.**
- **The SEC formally unveils (6/20) proposals for the establishment of a new public oversight body for public companies and their auditors.**
- **The AICPA responds (6/20) to the SEC announcement with a public statement and member communication.**
- **WorldCom admits (6/26) a $3.8 billion accounting error.**

JULY 2002

- **The House Financial Services Committee begins (7/8) hearings on allegations of accounting fraud at WorldCom.**
- **President Bush presents (7/9) a 10-point plan to improve corporate accountability to the Association for a Better New York.**
- **S 2673 passes (7/15) the Senate with amendments by a Yea-Nay vote of 97 – 0.**
- **The House and Senate Conference Committee meets (7/19 – 7/24) to reconcile HR 3763 and S 2673.**
- **House and Senate leaders agree (7/24) on changes to the proposed legislation. The Sarbanes-Oxley legislation is passed and sent to the White House.**
- **The AICPA releases (7/25) a public statement that it "is committed to working with all appropriate bodies to ensure timely and effective implementation of the law."**
- **President Bush signs (7/30) the Sarbanes-Oxley Act of 2002 into law.**

SUPPORTING CPAS IN FRAUD PREVENTION AND DETECTION

Recent financial scandals have raised everyone's awareness of the disastrous effects of corporate fraud. Not only do investors lose money, but employees can lose jobs and retirement savings, and perhaps worst of all for the nation's economy, many Americans lose faith in the capital market system. Costing an estimated $600 billion a year, fraud is damaging business.

For the CPA profession, the issue of fraud is complicated by the expectation gap — what an audit is and what the public perceives it to be. While an audit provides reasonable assurance that no material misstatement, whether caused by fraud or error, exists in a financial report, the public often believes that an audit provides absolute assurance. Recognizing the need to educate the public and corporate America about the auditor's role in fraud prevention and detection, the AICPA has proposed several new initiatives.

Almost immediately after Enron's collapse, the AICPA provided CPAs with assistance in the area of fraud. In February 2002, the Auditing Standards Board (ASB) issued an exposure draft expanding the existing guidance for U.S. auditors to follow in their efforts to detect material misstatements due to fraud. The standard — issued in fall 2002 and effective generally for 2003 year ends — mandates auditors to search for fictitious entries and perform other tests in response to risks of management override. The standard also requires:

The AICPA is calling on corporate America to join the profession in designing anti-fraud programs and controls.

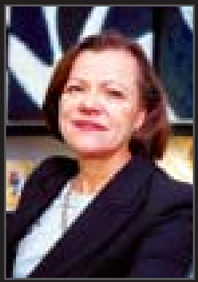
- Increased questioning of management and others within an entity.
- Determining how the audit committee exercises its oversight responsibilities.
- Asking internal audit personnel and operating management not involved in the financial reporting if they know about or suspect fraud.
- Discussing possible areas of misstatement with the audit team.

To complement this initiative, the ASB's Risk Assessments Task Force, a joint effort with the International Audit and Assurance Standards Board, is reviewing the auditor's consideration of the risk assessment process. This includes a necessary understanding of the entity and its environment, the entity's response to risk, and how the auditor can reduce audit risk to an acceptably low level. Guidance should be approved for exposure by late 2002.

In addition to standards, the AICPA is taking a leadership role by calling on corporate America to join the profession in designing anti-fraud programs and controls. The goal is to create fraud prevention criteria against which CPAs can test and report. Moreover, the AICPA is bringing together financial executives, corporate directors, audit committees, stock exchanges, analysts and regulators for an anti-fraud summit. The summit will work to identify new ways to reduce the incidence of financial statement fraud.

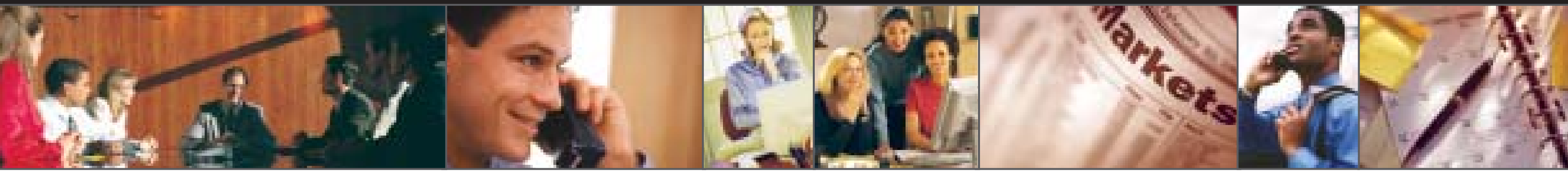
"Initiatives to enhance prevention and improve detection of fraud in financial statements will go a long way in reinforcing CPAs' commitment to the public trust. We have to demonstrate that honest, complete financial statements are our highest priority."

Krista Kaland, CPA
Partner, Director of Assurance Services
Clifton Gunderson LLP
Milwaukee, Wisconsin
Member, SECPS Quality Control Inquiry Committee



"The demand for CPAs to provide services in the investigation of fraud, whether suspected or asserted, has never been greater. CPAs who provide fraud investigation and prevention services also are uniquely qualified to assist in corporate governance program development. I am proud to be a CPA providing services that are part of the solution."

Sandra K. Johnigan, CPA, CFE
Johnigan P.C.
Dallas, Texas
Member, AICPA Anti-Fraud Coordinating Task Force
Chair, Litigation and Dispute Resolution Services Subcommittee



NEW DECISION TREE HELPS BUSINESS AND INDUSTRY MEMBERS RESOLVE ETHICS ISSUES

But fraud's best prevention is a culture of ethical behavior. To cultivate this environment, the AICPA is developing training programs to help corporate America, academia and the profession combat fraud. The programs will embed anti-fraud education in corporate training, college accounting courses and university business programs. The Institute also will urge the stock exchanges to mandate effective anti-fraud training for management, boards of directors and audit committees.

Collaborating with the University of Texas at Austin and the Association of Certified Fraud Examiners, the AICPA also is establishing the Institute for Fraud Studies. This new organization will sponsor and conduct research in fraud prevention and detection and provide business and government with insights to reduce the adverse impact of fraud.

In order to lead the way, the profession must set the example. The AICPA is, therefore, asking members to make anti-fraud awareness training a part of their continuing lifelong learning requirements. For a list of CPE courses in the area of fraud, visit www.cpa2biz.com.■

What should CPAs in both public and private companies do if the organization they work for asks them to engage in behavior that could be ethically questionable or illegal? The AICPA's Business and Industry Executive Committee recommends that they turn to a new Ethics Decision Tree for guidance. The decision tree helps members navigate professional ethics challenges by walking through a series of actions. The tree begins with identifying an issue and moves through suggestions such as turning to a company's ethics policy and, if appropriate, talking to senior management. If CPAs follow the tree to the end without a satisfactory resolution, one consideration remains: Should they continue employment at the company?

Without doubt, professional ethics challenges are extremely difficult. While the decision tree does not provide answers to a specific professional dilemma, it does help business and industry members explore the issues influencing their potential actions, and it helps them turn to the AICPA Code of Professional Conduct for advice. It also encourages CPA financial managers to maintain the same professional skepticism for which auditors are known. For example, if the answer a company offers for an ethics issue doesn't seem to make sense, continue searching for answers.

If after following the decision tree, members find they need to talk to someone about their issue, they can turn to the ethics hotline, maintained by the AICPA professional ethics team. The staff can help answer inquiries about the AICPA Code of Professional Conduct and sometimes offer advice. To access, dial 1-888-777-7077 and follow the prompts to be routed to the ethics team or e-mail ethics@aicpa.org.

Another resource for business and industry members is a new electronic newsletter. E-mailed twice a month,

"Remaining objective and acting with the highest levels of integrity help achieve effective corporate governance. This in turn builds a strong foundation for trust, which is required to drive the economic engine of our free-market society."

Susan M. Hinds, CPA
Toyota Motor Mfg.
North American Headquarters
Corporate Strategy Division
Erlanger, Kentucky
Member, AICPA Business and Industry Executive Committee

IMPROVED TIMELINESS, RELIABILITY
AICPA MOVES TO REFORM BUSINESS

BusInd E-News provides updates on professional developments and guidance on important issues. A recent edition of the newsletter, for example, summarized the Sarbanes-Oxley Act, highlighting the provisions that will most impact CPAs in public and private companies.

A milestone for the business and industry team this year was the publication of its first book on management accounting. *The Handbook of Process-Based Accounting: Leveraging Processes to Predict Results,* by James A. Brimson, helps CPAs understand their company at a process level and use that knowledge to predict and manage future results.

Many resources for business and industry members are available on the Web. The decision tree, as well as ethics case studies and the AICPA Code of Professional Conduct, can be found at www.aicpa.org/members/div/ethics/bai/baimemb.htm. ■

Ask investors what they want from a business statement and the answer will be clear: They want a statement they can understand.

By supplying a broader "bandwidth" of information that addresses issues such as off-balance-sheet activity, liquidity, nonfinancial performance indicators

By supplying a broader "bandwidth" of information that addresses issues such as off-balance-sheet activity, liquidity, nonfinancial performance indicators and unreported intangibles, business reporting can begin to address the complexities of today's corporations.

The AICPA is advocating an improved business reporting process that builds upon the current model and helps investors, creditors and management make informed decisions. Essentially, good business reporting relies on five factors:

- Reliable systems to collect and analyze information.
- Better quality disclosures to investors — including plans, opportunities, risks, uncertainties and the drivers of future success — reported in plain English.
- Industry-specific financial and nonfinancial performance measures.
- Corporate accountability.
- Online, real-time distribution channels for disseminating information.

and unreported intangibles, financial reporting can begin to address the complexities of today's corporations. In plain English, that translates to understandable financial statements.

Through the Value Measurement and Reporting Collaborative (VMRC), the AICPA and the Canadian Institute of Chartered Accountants are leading the way. The two institutes developed the VMRC to bring together stakeholders in the financial reporting process from around the world to determine the best methodologies for value measurements and business reporting. While the collaborative's primary purpose is to enable investors to see more pertinent information about what makes a company successful, the VMRC also aims to help

"CPAs in government have an important role in promoting government accountability and the integrity of government operations. Americans depend on us to make sure government agencies function properly, account for tax revenue and expenditures appropriately and find solutions to challenges that confront their citizens."

Ernie Almonte, CPA
Auditor General, State of Rhode Island
Pawtucket, Rhode Island
Chair, AICPA Government Performance and Accountability Committee

MEMBERS IN GOVERNMENT

The Government Performance and Accountability Committee, formerly called the Members in Government Committee, has begun a new focus this year. The committee expanded its scope to include all CPAs who serve government, either as employees or service providers.

The reason for this change was clear: CPAs who work for or supply services to government need specialized guidance.

One example involves the issuance of Governmental Accounting Standards Board Statement No. 34, which significantly changed the financial reporting model that governments have been following. Recognizing the support members need, the AICPA revised the Audit and Accounting Guide, ***Audits of State and Local Governmental Units,*** to help members implement the changes.

AND TRANSPARENCY — REPORTING MODEL

boards of directors and senior management make better strategic decisions.

In addition, the AICPA is participating in a project of the Committee of Sponsoring Organizations of the Treadway Commission to develop an Enterprise Risk Management (ERM) framework. ERM is designed to provide reasonable assurance of the reliability of a company's financial reporting, as well as of the effectiveness and efficiency of its operations and its compliance with applicable laws and regulations. The ERM framework consists of five interrelated components that must all be present and operating effectively for the framework to be successful. They are:

- Environment—how the tone at the top of a corporation influences the integrity, ethical values and philosophy of a business.
- Risk assessment — how risks achieve corporate goals, as well as how those risks are addressed and managed.
- Activities — how policies, procedures and processes ensure that a company carries out management directives.

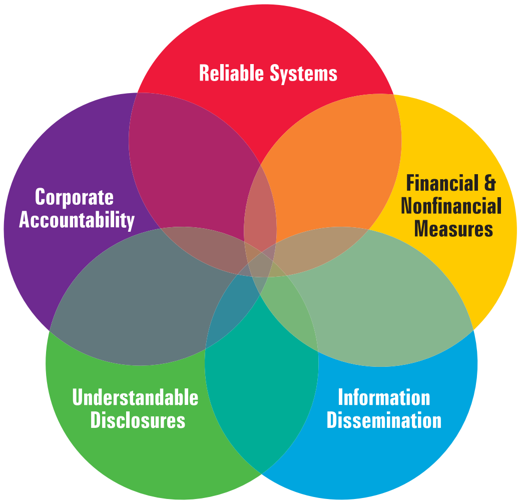
The ultimate goal of the Value Measurement and Reporting Collaborative is to enable investors to see more pertinent information about what makes a company successful.

- Information and communication — how a company communicates internally and externally to customers, regulators and shareholders.
- Monitoring — how effective internal control systems are key to risk management.

The framework will be exposed for public comment by the end of 2002 and the AICPA will develop implementation guidance to be available with the final framework's release by the end of the first quarter of 2003.

Together, these initiatives can help business reporting capture the critical information that investors, consumers and employees need. ■

ENHANCED BUSINESS REPORTING



Click Here

"We must move from periodic, historical, cost-based financial information to a real-time, broad-based business reporting model that is comprehensive, understandable and accountable to investors."

John Nix, CPA
Bates, Carter & Co., P.C.
Gainesville, Georgia
Member, AICPA Performance Measures Task Force

PERFORMANCE MEASURES BRING A WIDER RANGE OF INFORMATION TO BUSINESS REPORTING

One service CPAs already use to look at the wide-ranging information the new business reporting model would require is CPA Performance View℠. Performance measurement essentially merges standard financial measures with leading indicators that can be either financial or nonfinancial in nature. Using these methods, CPAs identify and track over time a company's critical success factors, such as revenue and gross margins from new products, market share, and customer and employee satisfaction and loyalty. It is this mix of historic and leading financial and nonfinancial measures the investing public wants to see. CPAs, trained to measure results, design systems and capture information, are uniquely suited to find and report it.

EXPANDING REFORM ACROSS OUR BORDERS

In a global economy, helping accountants meet customers' expectations and investors' needs is not confined to our nation's borders. Accomplishing this goal is exactly the mission of the International Innovation Network (IIN). Created by the AICPA and 16 other accountancy institutes in 2002, the IIN works to build market acceptance of the products and services accountants provide worldwide.

Essentially, the IIN will help the profession fulfill its public interest mission by adapting advisory and assurance models to help organizations with all aspects of the new business reporting framework. Since collaboration is a key objective, the network also will provide leadership in developing and sharing ideas, solutions, best practices and benchmarks.

Currently, the institutes are collaborating on training, education, branding, promotion, communications and public relations programs for many assurance services. Systems reliability, information dissemination and corporate accountability represent some of the focus areas.■

XBRL TAKES CENTER STAGE

Thinking of investing in a smaller public company, one that is listed on the NASDAQ stock exchange? If it's one of a certain group of NASDAQ-listed companies, you can easily sort through several years of that company's financial statements and compare them to other companies in that industry. How? Through eXtensible Business Reporting Language (XBRL), an XML-based reporting standard developed by an international coalition founded by the AICPA.

In a crowning achievement for XBRL, NASDAQ, along with Microsoft and PricewaterhouseCoopers, announced the launch of a new pilot program. The program provides investors with remote access to financial data from five years of financial reports for 21 NASDAQ-listed companies. The XBRL-formatted data will be available through a NASDAQ-hosted Web service and will showcase the abilities and power of XBRL.

With more than 150 member organizations operating in nine jurisdictions to date, XBRL International continues development of business reporting standards that simplify data exchanges between disparate businesses and software systems. In addition to NASDAQ, many other financial institutions and large corporations announced decisions to use XBRL. For example, the Federal Deposit Insurance Corporation will use it to collect, validate and report on Bank Call Report data.

Microsoft, Reuters, Morgan Stanley, Edgar Online and Deutsche Bank all have either released their financial statements in XBRL or announced plans to move forward with implementing the XBRL standard. What's more, Moody's is proceeding with pilot programs to use XBRL for loan and credit analysis for small- to medium-size customers.

With these successes, XBRL's future is certain: It will continue to transform the way companies prepare, report and distribute financial information. That's good news for investors, analysts and consumers who rely on financial statements to make decisions.■

"Effective information dissemination will play a key role in any new business reporting model, especially in light of recent developments in corporate accountability. XBRL is a tool CPAs can use to help organizations report information to all stakeholders in the financial information supply chain in a timely and more transparent way."

Charles Hoffman, CPA
Founder, XBRL Solutions
Seattle, Washington
Approached AICPA with XBRL idea

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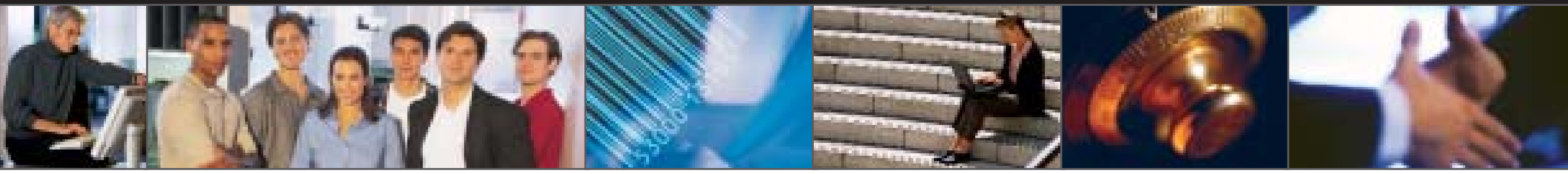


PROTECTING CONSUMER PRIVACY

More companies are turning to the Internet for sales, customer communications and information sharing. At the same time, consumers' concerns about their privacy continue. From credit card and identity theft to unauthorized access to financial and health care records, consumers have a lot to be concerned about. But a Harris Interactive survey, sponsored by the AICPA and Ernst & Young LLP and conducted for Privacy and American Business, suggests that what consumers want is some reassurance.

The study showed that independent verification of company privacy policies is the single business action that would satisfy consumers. Eighty-four percent of respondents believe such verification should be a requirement for companies today. The poll also shows that companies with good privacy practices stand to gain customer loyalty — almost 50% of consumers said they would buy more frequently and in greater volume from businesses that establish strong, trustworthy privacy practices. CPAs are uniquely qualified to answer the call.

The AICPA Enterprise-Wide Privacy Task Force is developing a comprehensive privacy principles and criteria framework to help CPAs protect the public interest in this important area. This framework will incorporate myriad domestic and international privacy laws and regulations. It also will include widely accepted fair information practice areas that govern the collection and use of personal information. The exposure draft will be issued in fall 2002.

The AICPA Enterprise-Wide Privacy Task Force is developing a comprehensive privacy principles and criteria framework to help CPAs protect the public interest in this important area.

In addition, the new framework will establish privacy best practices for businesses, as well as benchmarks against which CPAs can measure them. CPAs will then be able to assess privacy-related risks and develop sound privacy policies for both traditional and Web-based companies. They also can help companies comply with privacy laws.

To build awareness about privacy among CPAs both in public practice and business and industry, the AICPA has developed an online resource that explains the risks associated with privacy, the benefits of good privacy practices and how privacy can be used by businesses for a competitive advantage. CPAs can begin at the privacy Web page on the AICPA's main site at www.aicpa.org/innovation/baas/ewp/homepage.htm.

More details can be found at www.cpa2biz.com/resourcecenters/default.htm. There, CPAs will be able to view and download a free introductory privacy primer entitled, *Privacy Matters: A Guide to Protecting Personal Information.*

Another useful tool offered to CPAs free of charge is a brochure highlighting important questions that businesses need to ask about their privacy practices. Questions cover topics about what personal information the business collects and retains about customers and employees, how it uses or shares that information and whether employees with access to personal data are trained in privacy protection. The questions are designed for CPAs and business owners to use together to gain a better understanding of good privacy practice and to identify sound controls and policies. ■

PRIVACY

BUILDING CONSUMER TRUST WITH TRUST SERVICES

A critical aspect of the enhanced business reporting model is reliable systems. The AICPA's Trust Services framework of principles and criteria addresses this very need. The framework provides a comprehensive set of performance indicators, best practices and benchmarks that firms in public practice can deliver through a range of diagnostic and attestation services. Members in business and industry can use the framework as a methodology for evaluating internal systems. Through independent verification by CPAs, Trust Services allow organizations to determine the security of valuable data and ongoing operations, which is an important factor in confirming the reliability and effectiveness of critical information systems.

The Trust Services family was established in 2002 by harmonizing the principles and criteria associated with the WebTrust SM/TM and SysTrust SM/TM branded services. This year, SysTrust continued to gain momentum in the third-party service provider marketplace. In addition, the WebTrust Program for Certification Authorities has been adopted by the world's leading certification authorities.

EMPOWERING WOMEN TO CHART THEIR FINANCIAL FUTURE

Here are some facts: Women now head more than 50% of U.S. households with high net worth; more than 68% of women say they handle the bills in their households. With statistics like these, it's gratifying to know that, according to a recent poll, 71% of women would choose a free session with a Personal Financial Specialist over a free session with a personal trainer.

Responding to this opportunity, the AICPA and *Money* magazine developed "Women's Financial Health Week." The program's theme was empowering women to determine their own financial destiny, and millions of women responded to this promise. The campaign, which was held January 14–18, 2002, reached an estimated 70 million consumers through print, television, radio and online media coverage.

CPAs with the AICPA's Personal Financial Specialist (PFS) credential served as spokespeople for the campaign, answering questions and providing guidance on www.womensfinancialhealthweek.com, the campaign's still-live Web site. Nearly 10,000 visitors went to the site during the weeklong campaign, far exceeding the Institute's original goal of 3,000 visitors.

The program's success garnered it a Big Apple 2002 award from the New York Chapter of the Public Relations Society of America. The campaign won in the category of "Marketing Communications for Professional Services."

The awards are given annually to what judges believe to be the best communications program in a given category.■

"The marketplace's emerging demand for CPAs with accredited specialties is proof that we are the professionals to go to for sophisticated knowledge. In fact, 50 CPA Personal Financial Specialists made *Worth*'s list of the 250 top financial planners — and a total of 75 were CPAs. I have been honored to be on *Worth*'s list continuously since 1996. Each time this list gets published, it reaffirms for me the value of both my CPA and PFS designations. I truly believe that the success I have achieved in my career is directly related to the fact that I am a CPA/PFS."

Barbara Raasch, CPA/PFS
Ernst & Young LLP
New York, New York
National Spokesperson,
Women's Financial Health Week

CPA FINANCIAL PLANNERS CONTINUE TO BE RECOGNIZED FOR SUPERIOR FINANCIAL WISDOM

***Worth* magazine's list of the 250 top financial planners speaks volumes. CPAs and CPA/PFS always make a prominent showing. The magazine says that its "list of the nation's most elite financial advisors serves as a guidepost for superior financial wisdom." CPAs have been providing that wisdom to their individual clients for years. To demonstrate expertise in this area, CPAs can obtain the Personal Financial Specialist credential. To qualify, a CPA must be a member in good standing, have experience in personal financial planning and pass an exam, among other requirements.**

STUDENT RECRUITMENT CAMPAIGN PROVES A WINNER

When the news of business failures thrust CPAs into the spotlight, no one anticipated a renewed student interest in the accounting profession. But that is one surprising outcome of recent events. Witnessing firsthand the difference CPAs can make to the U.S. capital markets and businesses, students were intrigued by the power of the profession and therefore attracted to it as a career choice.

The new five-year, $25 million student recruitment campaign launched last year only added to the impact. "Start Here. Go Places." targets 16–22 year olds where they can be found most often: in high schools and on college campuses across the country. The campaign reaches students through Web-based, interactive games and promotions, as well as by e-mail, direct mail, and other advertising and communications vehicles. Most importantly, students have the opportunity to respond by sharing their perceptions and aspirations.

The campaign's message is simple and direct — the CPA credential can help students go anywhere in the world of business. It is, in fact, a preferred method of entry to many highly desirable jobs because of the skills acquired.

These messages were convincingly conveyed through the "Be a Music Mogul — Build a Record Label" promotion for high school juniors and seniors and the "$10,000 Dream Internship" promotion for college students, the centerpieces of the first part of the recruitment program. All promotions sport the tagline "Sponsored by America's CPAs." Television ads, campus events and posters promoted the game and contest.

The campaign reached more than 8.5 million high school juniors and seniors and 1.2 million college students.

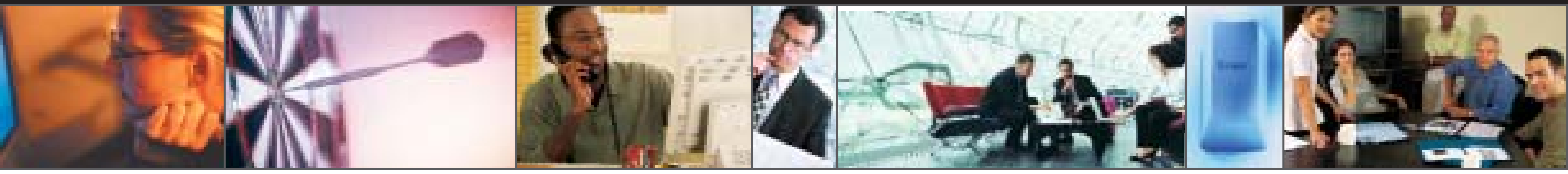
Both the game and contest also were featured on the Web site of Burly Bear Network, one of the most popular cable networks in college dormitories.

Students flocked to www.StartHereGoPlaces.com. The Web site offers information and tools for high school and college students, but its big attraction is a game. BizzFun is an online business simulation that lets students run the whole show. Students can choose an industry, manage multimillion-dollar budgets and compete with friends for the top score. After playing the game, students can tell us what they think.

The campaign reached more than 8.5 million high school juniors and seniors and 1.2 million college students. In recognition of the campaign's effective communications strategies and tools, the Promotion Marketing Association bestowed two coveted "Reggie" awards on the program (developed with the full-service agency Wunderman). The AICPA and Wunderman campaign placed in two categories against stiff competition: a bronze for Multi-Partner Promotion — involving three or more partners (the gold and silver went to Walt Disney Studios for *Monsters, Inc.* and 20th Century Fox for *Moulin Rouge,* respectively) and a silver for New Media Promotion (the gold went to BMW of North America and the bronze went to The History Channel). ■

"Recent business events have changed the public's perception of our work, underscoring the importance and value of our role in the economy. This heightened awareness of what CPAs do will lead to more accounting majors."

Steve Albrecht, CPA
Professor, Brigham Young University
Salt Lake City, Utah
Member, Pre-Certification Education Executive Committee



CPA EDUCATION NEVER STOPS

Armed with years of accounting and business education, an understanding of our ethics, and perhaps some auditing experience, CPA candidates enter the testing ground to prove whether they have the qualifications to become CPAs. The Uniform CPA Examination has been the entry point to the profession for more than 100 years.

To keep up with new business demands and emerging technologies, the exam is changing. The exam is moving to a computer-based format that will test for abilities not readily captured in the paper-based exam. The new exam focuses on the realities of today's CPA work environment and the knowledge and skills required at the entry level. This means that the new test will assess higher cognitive abilities such as organization, communications, research and analysis skills as well as an understanding of professional standards.

With the last paper-based exam to be administered in November 2003, the new 14-hour test will commence in early 2004. It will consist of sections in Auditing and Attestation, Financial Accounting and Reporting, Regulation, and Business Environment and Concepts. Candidates will take the computer-based exam by appointment, and can take the parts individually and in any order. Moreover, the exam will be unique for each candidate, drawing from a database of multiple-choice questions and simulations. Candidates who fail a part of the exam will receive diagnostic information to help them prepare for the retake.

A new Web site, www.cpa-exam.org, offers up-to-date exam information and provides an efficient way to contact the organizations involved in the exam's administration.

A new Web site, www.cpa-exam.org, offers up-to-date exam information and provides an efficient way to contact the organizations involved in the exam's administration. Tutorials and other materials to familiarize candidates with the computer-based exam should be available by the end of 2002.

But for CPAs, learning continues well after the CPA Exam is passed. CPAs pride themselves on lifelong learning and are continually examining how to keep continuing professional education (CPE) accessible and relevant. New CPE standards that took effect January 1, 2002, emphasize professional development rather than compliance with a requirement to "earn hours." The new standards introduce the concept of independent study, whereby a CPA can engage in a learning program with a qualified sponsor on a one-to-one basis when traditional learning is not readily available at the level needed by the CPA. ■

The Uniform
CPA Examination

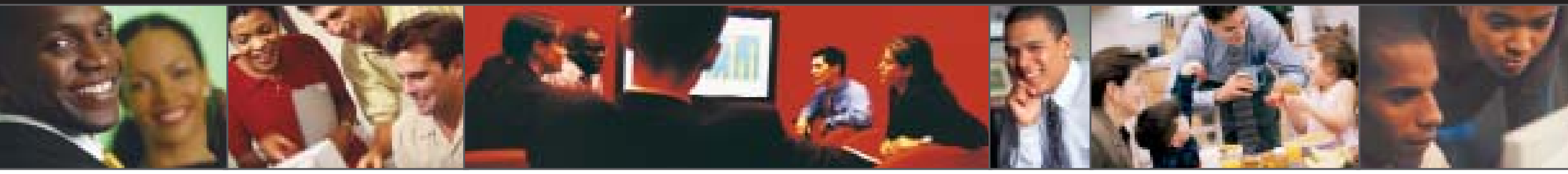
Fred Christensen, CPA
Leavitt, Christensen & Co.
Boise, Idaho
CPE Instructor

"CPA candidates' first experience with our profession's mission to uphold the public trust occurs right at the entry gate with the Uniform CPA Examination. Continuing professional education helps CPAs maintain their technical knowledge in accounting, tax, audit or other professional services throughout their careers."

ENDOWING THE FUTURE

It's often said humans have an innate desire to achieve immortality. Political and military leaders strive to mark their place in history. Entertainers and artists leave their works for perpetual appreciation. People's spirits live on through their children. So why shouldn't a profession have the same goal?

Ensuring that future generations of CPAs have a thriving, sophisticated profession that upholds the public trust is the job of the AICPA Foundation. Members had a unique opportunity this year to endow the future of the profession by donating some or all of their stock received from the demutualization of Prudential Insurance Company. Members' tax-deductible contributions help support the foundation's efforts in accounting education and research.

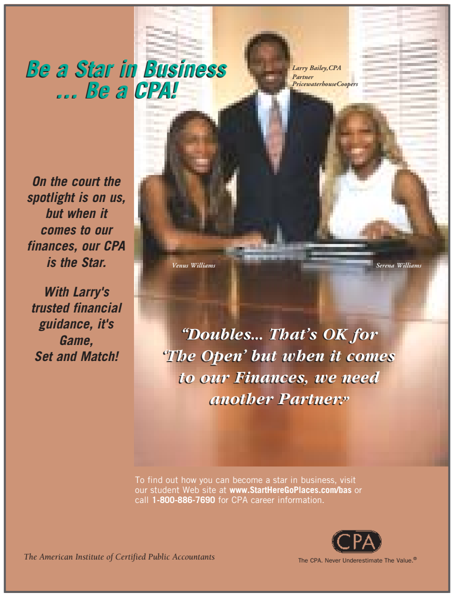


ENSURING DIVERSITY IN THE PROFESSION

In 1969, then-AICPA Chair Ralph Kent declared in his inaugural address that the time had come to integrate the public accounting profession. When Kent made the speech, only 150 African-Americans could be counted among the 100,000 CPAs in America. By 1989, there were 2,500 out of 400,000 CPAs nationwide. Today, though racial/ethnic minorities account for approximately 25% of the U.S. population, African-Americans, Hispanics and Native Americans continue to be severely under-represented in the profession. There is still a long way to go.

Working to improve this situation is the AICPA Minority Initiatives Committee (MIC). The committee's primary objective is to fulfill Council's 1969 resolution by actively bringing minorities into the accounting profession and enhancing their upward mobility. To achieve this mission, the MIC has developed a comprehensive program of scholarship support and faculty development and has implemented programs to promote the profession to minority high school students.

The diversity program added a personal touch this year. The MIC launched a program developing alliances with colleges and universities that educate large numbers of



minority students in accounting and business. Committee and AICPA staff members visit these schools to interact with faculty and students and to present information on Institute initiatives, the Uniform CPA Examination and other developments.

The AICPA also continued the "Be a Star in Business… Be a CPA" ad campaign. The campaign features two

new ads. One pictures international tennis champions Venus and Serena Williams with their CPA. Another ad shifts the focus from celebrities to CPAs with exciting careers, featuring the chief financial officer of the St. Louis Rams football team. ■

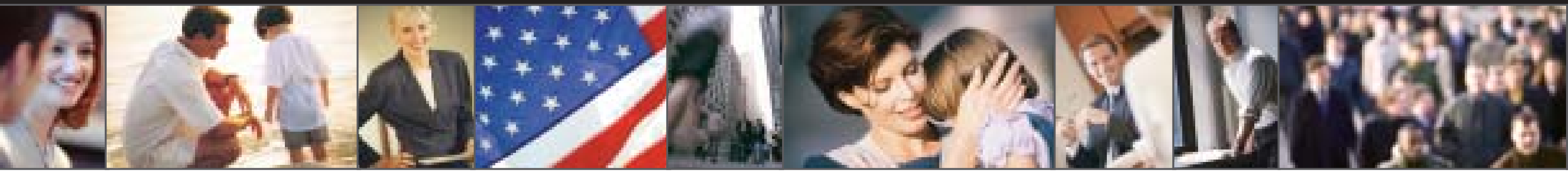
"As a profession, we should reflect the populations we serve. Growth continued this past year both in the number of minorities entering the profession and serving on committees. These improvements can be attributed to the financial resources committed by the AICPA, its dedicated staff and committee volunteers."

Genevia Gee Fulbright, CPA
Vice President
Fulbright & Fulbright, CPA, PA
Durham, North Carolina
Member, AICPA Minority Initiatives Committee

HELPING CPAS BALANCE PROFESSIONAL AND FAMILY LIFE

It is one of the hardest things for Americans to do: balance work and family life. Yet it's also one of the most important. To help CPAs integrate their professional and personal lives, the AICPA Work/Life and Women's Initiatives Executive Committee is encouraging CPA firms to embrace flexible work arrangements. Such arrangements can take many forms, from a compressed workweek to telecommuting, job sharing and permanent part-time employment. These changes are not always easy for a firm to implement, but its rewards are obvious: improved staff retention and productivity and a definite recruiting advantage.

By empowering personnel to manage their work time, the CPA profession can more readily appeal to a broader segment of the workforce and foster diversity that better reflects the public CPAs serve. In fact, thanks in large part to work/life initiatives, the percentage of women accounting graduates continues to climb.



CPAS HELPING AMERICA AND EACH OTHER

September 11, 2001, is a day no one will forget. The traumatic images of the World Trade Center and the Pentagon and the tremendous sadness over the loss of so many lives will remain with all Americans. CPAs rose to the occasion by providing information and tools as well as offering financial assistance and counseling.

Combining public interest with public spirit, more than 400 CPA personal financial planners came forward to offer pro bono financial counseling services to survivors and families of victims. These volunteers helped guide those in need through the maze of short- and long-term financial assistance programs. They addressed a host of issues, including settling estates, funding college, handling investments and transferring retirement plans to beneficiaries.

To support them, the AICPA developed a Web-based Disaster Recovery Resource Center, accessible free of charge. The center featured contingency plans to help CPAs, their clients and businesses cope with the events as well as a Webcast highlighting disaster-related issues, such as filing insurance claims and healing psychological trauma.

Also housed in the resource center were Internal Revenue Service notices about disaster relief for payments and filings; news of the Financial Accounting Standards Board's issuance of a statement on accounting after terrorist attacks; information on recovery of accounting records, obtaining audit evidence and going-concern issues; and articles covering such topics as determining whether an organization's technology systems are a target for cyber-terrorism. Further supporting this initiative, the business and industry team prepared a Disaster Recovery Checklist for CFOs and controllers.

Combining public interest with public spirit, more than 400 CPA personal financial planners came forward to offer pro bono financial counseling services to survivors and families of victims.

In addition, the AICPA established the CPAs in Support of America Fund, Inc. to help CPA firms, employees of firms, and people directly affected by the tragedy. Contributions were received from many sources, including some state CPA societies and foreign accountancy institutes. Members faced with hardship after the terrorist attacks were able to turn to the AICPA's longstanding Benevolent Fund. The AICPA also offered to reconstruct the professional libraries of member firms located in lower Manhattan.

What's more, the AICPA created a full-page "Message of Support" ad that was featured in a regional issue of *BusinessWeek.* At the end of the ad, we urged citizens in need of financial help from the CPAs in Support of America Fund or financial counseling from our CPA volunteers to contact us.

The profession's public service mission and specialized training make CPAs automatically attuned to the issues people confront in a crisis. It is one reason why CPAs have always been known as America's trusted financial advisors. ■

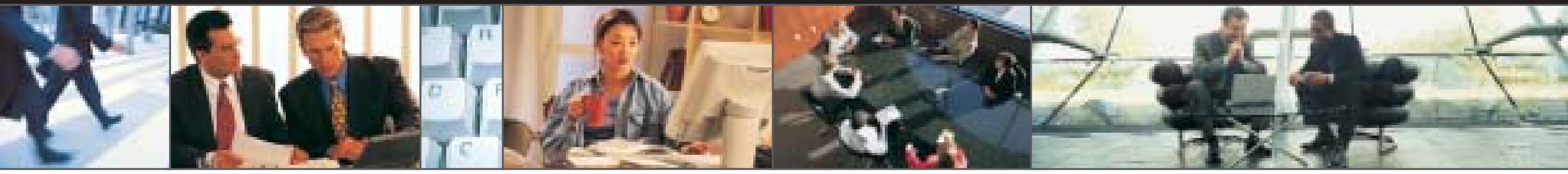
COMMITMENT TO MEMBER SERVICES

How do companies measure the effectiveness of their operations? Many indicators exist — quality management, employee training, and innovative products and services, to name a few. The AICPA has been proud this year to have achieved success in all three areas.

Quality management is crucial for effective operations. Once again, the AICPA's quality management system has been judged in compliance with ISO 9001 quality standards. These standards, developed by the International Organization for Standardization, serve as benchmarks for assessing the reliability and validity of an organization's daily operating processes and procedures. Customer satisfaction with products and services is the ultimate criterion for the assessment, but successfully applying systems processes and meeting performance measures also play an important role. The AICPA received its first ISO 9001 certification in 1998 — the first national professional association to do so. It has earned recertification every year since.

The AICPA is committed to quality and excellence in all of its operations. This commitment was evident this year when the Employers Association of New Jersey recognized the AICPA Human Resources Team for exceptional workplace practices. Specifically, the association awarded the Institute's System to Accept Responsibility for Job Performance program (STAR). STAR emphasizes individual responsibility for job performance, correcting problems by focusing on improvements the employee can make rather than on punitive actions.

Programs that provide professional development and opportunities for members are always a priority for the AICPA. With the goal of broadening the education currently available to members, particularly those in business and industry, the Institute acquired NorthStar



CPA2BIZ ADDS RESOURCES AND GETS NEW LOOK

CPA2Biz, Inc., the exclusive distributor of AICPA products and services, has reached new milestones since launching www.cpa2biz.com in June 2001.

One of the year's biggest successes was the dramatic growth in the number of online registered users. The Web site now has more than 100,000, an increase of 200% over last year.

One of the year's biggest successes was the dramatic growth in the number of online registered users. The Web site now has more than 100,000, an increase of 200% over last year. Bringing these users to the site is a new look and significant enhancements resulting from a merger with Rivio, Inc., a Silicon Valley technology company. The enhancements include improved site performance, page loads, navigation and search capabilities as well as a reorganized cache of articles and practice aids located in 15 online resource centers.

In addition, the Web site offers many new products and services. More than 1,000 products are available at special prices to members through the AICPA Online Store. The AICPA Business Solutions area features customized payroll and human resources services that CPAs can provide to clients. And through a new delivery system, *AICPA InfoBytes* gives subscribers unlimited online access to hundreds of continuing education hours.

CPA2Biz and the AICPA also renegotiated their relationship this year, creating a win-win for the organizations and members. Continuing as the exclusive marketing and distribution arm and online presence for AICPA products, CPA2Biz is focusing on developing business-to-business services that CPAs can deliver to clients and employers.

The AICPA remains the source for professional information, intellectual content and product development.

For more information, visit www.cpa2biz.com. By registering on the CPA2Biz Web site, customers become subscribers to the weekly *AICPA CPA Insider* e-newsletter. ■

Conferences. NorthStar's programs cover a wide range of subject areas, including finance, leadership, mergers, marketing and regulatory issues in the accounting profession and other industries. The team has produced more than 950 national conferences and trained over 50,000 executives.

In the next year, the AICPA will continue to emphasize effective operations that help fulfill its mission: 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.

FINANCIAL

SOURCES AND OCCUPATIONS OF AICPA MEMBERSHIP

	1990	1992	1994	1996	1998	2000	2002
Total AICPA Membership (excluding student and other affiliates)	295,633	308,280	318,829	328,214	332,355	337,454	337,867
Public Accounting	44.5%	42.6%	41.3%	40.4%	39.6%	39.4%	38.8%
Business & Industry	40.4%	40.6%	40.9%	42.3%	43.9%	46.4%	47.4%
Education	2.7%	2.4%	2.4%	2.4%	2.4%	2.3%	2.3%
Government	3.7%	4.1%	4.4%	4.4%	4.4%	4.2%	4.0%
Retired & Miscellaneous	8.7%	10.3%	11.0%	10.5%	9.7%	7.7%	7.5%
Membership in Public Practice	131,508	131,306	131,630	132,617	131,627	132,943	130,995
Firms with one member	24.3%	23.6%	23.5%	22.9%	23.5%	21.8%	21.3%
Firms with 2–9 members	34.3%	35.5%	36.5%	36.4%	35.8%	34.1%	33.9%
Firms with 10 or more members, except the 25 largest firms	17.6%	19.8%	19.9%	20.8%	20.5%	22.8%	24.0%
25 largest firms	23.8%	21.1%	20.1%	19.9%	20.2%	21.3%	20.8%

STATEMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal 2002 was a difficult year for both the accounting profession and the AICPA. During this year, the AICPA devoted substantial resources to responding to Enron, WorldCom, and other high-profile business reporting failures, while continuing to move forward with many other initiatives that protect the public interest, strengthen the profession, and reach out to the next generation of CPAs.

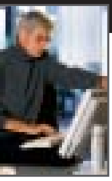
In response to the highly publicized business failures, the AICPA commenced the building of a new Institute for Fraud Studies, which will develop, sponsor, and conduct research in the area of fraud prevention and detection. Concurrently, the Auditing Standards Board developed enhanced guidance which will support auditors in the fulfillment of their responsibilities relating to material fraud in financial statements. A new Value Measurement and Reporting Collaborative was formed in cooperation with other international accountancy bodies to develop a framework for financial reporting, which includes financial and nonfinancial measures, as well as understandable disclosures.

Substantial resources were used to fund an aggressive media campaign to help rebuild the public's trust in the capital markets and the CPA profession in general. In addition, the Institute launched an award-winning, five-year $25 million student recruitment campaign targeted at high school and college students. The AICPA collaborated with *Money* magazine to launch a "Women's Financial Health Week" campaign aimed at empowering women to take control of their financial future. CPAs holding the AICPA's Personal Financial Specialist credential assisted in that campaign. The Institute introduced an e-newsletter, *AICPA News Update,* intended to keep members up-to-date on developing legislation, late-breaking news, and changes in the profession's regulatory framework.

During the year, the AICPA continued to move forward with the development of the computerized Uniform CPA Examination. The AICPA entered into a long-term agreement with NASBA and Prometric to provide the computerized format. The contract specifies that the AICPA will break even from fees charged to CPA Exam candidates. Prometric is providing a $10 million line of credit to partially fund the development of the exam technologies. Repayment of those funds is to be made from future exam revenues. To date, $5.9 million of costs related to the development of the computerized CPA Examination have been deferred and are included on the statement of financial position since the agreement provides that the AICPA will break even over the period of that agreement.

CPA2Biz, Inc., a majority-owned subsidiary of the AICPA, underwent significant evolution. In its second year of operations, CPA2Biz achieved a number of key milestones: over 100,000 registered users, a 25% increase in product offerings, and significant online sales revenue, while supporting the traditional marketing activities for the AICPA's products and services. In February 2002, CPA2Biz merged with Rivio, Inc., a leading provider of integrated Web-based application services for small businesses that are designed to streamline business operations, improve efficiencies and produce better results. To allow CPA2Biz to focus on its technology and marketing expertise, the agreement between the AICPA and CPA2Biz was renegotiated, effective July 1, 2002, to make CPA2Biz the exclusive online and offline marketing agent for certain products and services of the AICPA, and the party responsible for maintaining the official Web site for the sale of AICPA products.

Through cost reduction efforts in the last half of the year and because of its merger with Rivio, CPA2Biz has shifted from a heavy builder of technology and business infrastructure to a more sustainable cash flow focus, based on sales, marketing, and member service. CPA2Biz has not achieved profitability to date, but its management believes its recent cost reduction efforts, as well as its merger with Rivio, have laid the foundation for future profitability. Online sales have increased 300% over the past year and increased the availability of free



information for members. Both are clear reflections of the success of the vision to use outside investment to build robust technology platforms for member use.

The financial statements of the Institute include CPA2Biz assets, liabilities and operations. CPA2Biz has sustained substantial losses in its first two years of operations that reflect negatively on the operations of the Institute. These losses were funded by capital raised from third parties. The AICPA, as a stand-alone entity, is not liable for any CPA2Biz obligations. If CPA2Biz were no longer included in the AICPA's financial statements due to the Institute's voting control falling below 50% or CPA2Biz ceasing operations, the effect would be a reversal of approximately $80 million in previously recorded losses.

In Fiscal 2002, the AICPA on a stand-alone basis had an actual excess of operating expenses over revenue of $5.4 million before accounting for the $336,000 net loss in the AICPA's equity interest in Shared Services, LLC, and before elimination entries. The AICPA has been working diligently throughout the year to control expenses and re-deploy available resources as the Institute faced downturns in the economy, lower investment revenue, and additional costs related to Enron, WorldCom and other high-profile business failures.

The budget for Fiscal 2002 reflected an excess of operating expenses over revenue of $4.0 million, before $1.0 million of realized and unrealized gains on marketable securities. AICPA Council approved this deficit operating budget to launch a five-year, $25 million student recruitment campaign to help attract young, talented individuals into the CPA profession. While the AICPA is $1.4 million over its approved budget, major unanticipated costs were included in this overage, including costs of responding to the publicity surrounding the high-profile business failures and the related effect on the accounting profession, of communicating with our general membership during these turbulent times, and of renegotiating the AICPA/CPA2Biz agreement.

In Fiscal 2002, operating expenses on a combined basis [AICPA, CPA2Biz and the related organizations (the "Institute")] exceeded operating revenue by approximately $41.0 million as compared to $37.7 million in Fiscal 2001. Also on a combined basis, the Institute experienced a loss on marketable securities of approximately $7.9 million for Fiscal 2002 due to unfavorable market conditions compared to a loss of only $779,000 in Fiscal 2001.

Operating revenue was $171.4 million in 2002 compared to $164.9 million in 2001, an increase of $6.5 million, or 3.9%. This increase is due primarily to the income from a financial services company acquired by CPA2Biz in late Fiscal 2001, and higher fees for administration of the paper-based CPA exam. This increase is offset by lower sales of publications, self-study courses, advertising and conferences as a result of the downturn in the economy.

Operating expenses were $212.4 million in 2002 compared to $202.7 million in 2001, an increase of $9.7 million or 4.8%. Cash flow used in operating activities was $22.0 million in 2002 compared to $3.6 million in 2001. The increases in operating expenses and in cash used in operations were predominately due to the two acquisitions made by CPA2Biz in Fiscal 2001 and 2002 (Capital Professional Advisors and Rivio), the new student recruitment campaign and other media and member communications required as a result of the publicity surrounding the high-profile business failures and the related effect on the accounting profession, as well as costs related to renegotiating the AICPA/CPA2Biz agreement.

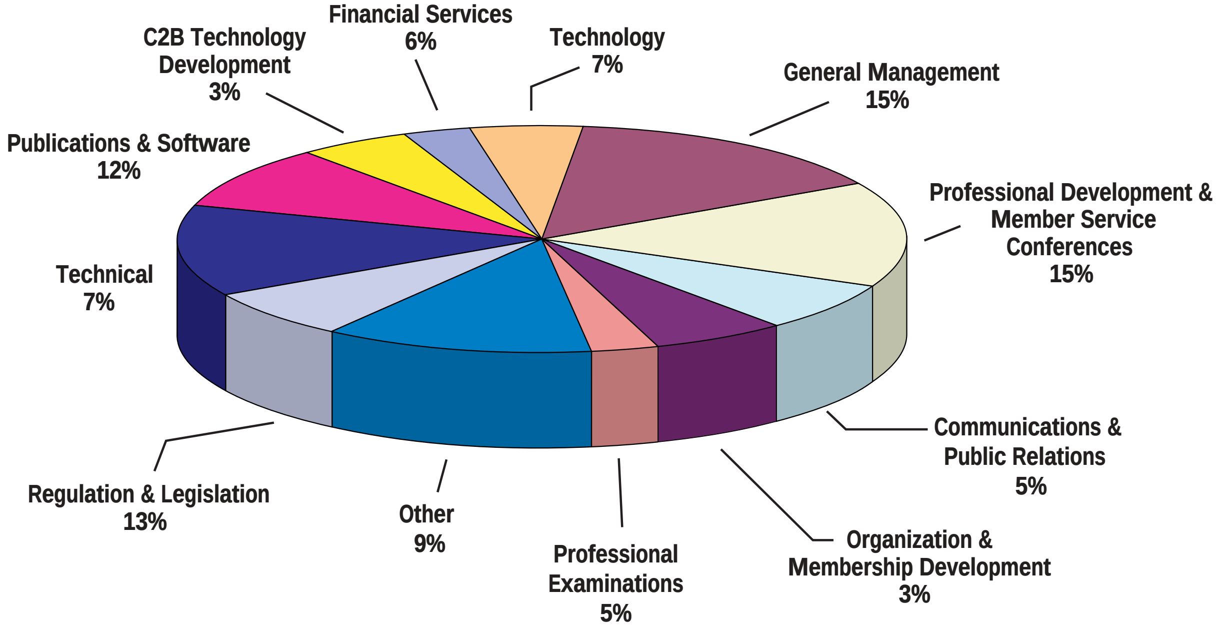
At July 31, 2002, the AICPA and related non-profit organizations have a strong financial position with excellent liquidity. The current liquidity along with the anticipated 2003 operating results should be sufficient to finance planned operations other than CPA2Biz activities.

CPA2Biz has sustained substantial losses in its first two years of operations. Significant losses were anticipated from the beginning, but they were greater than expected. The CPA2Biz revenue model has changed and the business plan has been realigned. Certain changes in business approaches and cost cutting have laid the foundation for improved cash flow in the future. If CPA2Biz's 2003 planned cash flow projections are not met, CPA2Biz's ability to operate could be adversely affected. Although no assurances can be given, CPA2Biz management remains confident that CPA2Biz will be able to continue operating as a going concern.

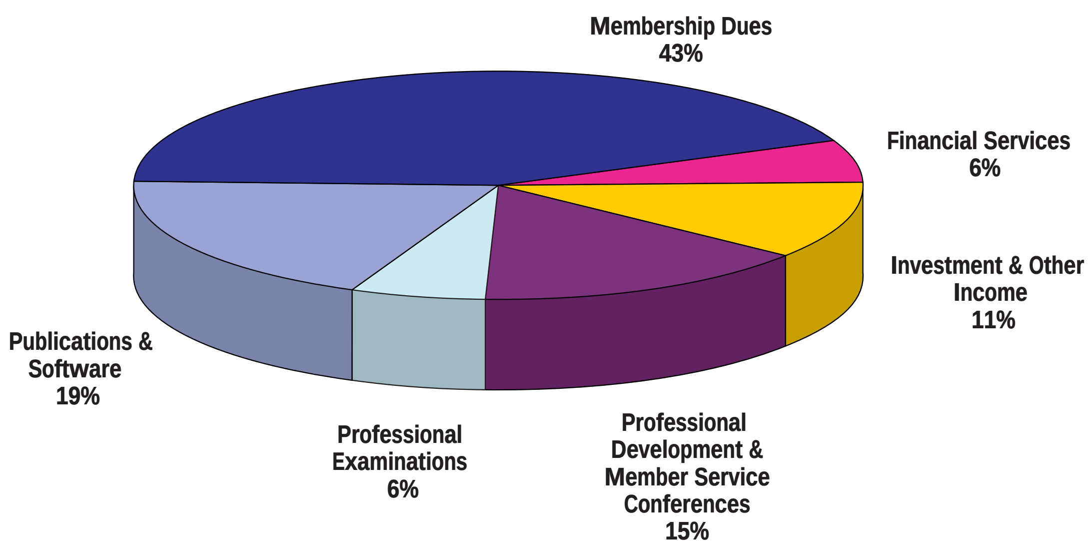
The AICPA was not immune to the volatility in the capital markets; however, proper diversification in the fixed-income, international and mid-cap areas mitigated some of its effect. While the AICPA on a stand-alone basis incurred unrealized and realized losses on marketable securities during the fiscal year totaling $7.1 million, this represents only 9.5% of the $75 million in average marketable securities held by the AICPA during the year. The independent investment advisors used by the AICPA significantly outperformed their peers and their benchmarks. As a result of volatile market conditions during the past year, the AICPA's net asset to annual revenue ratio fell to 18.7%, which is below the targeted goal of 20–25%. Senior management is confident, based on historical capital market trends, that it will return to compliance in the upcoming periods.

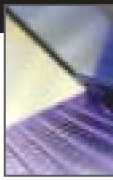
It has been a tumultuous time. September 11th, the Sarbanes-Oxley Act, the negative publicity around the image of the CPA as a trusted advisor, have all taken their toll on the profession and the AICPA. However, new initiatives, new goals and careful planning should carry us through to better, more prosperous times.

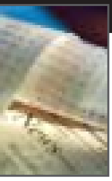
OPERATING EXPENSES BY ACTIVITY



OPERATING REVENUES BY ACTIVITY







MANAGEMENT'S RESPONSIBILITIES FOR FINANCIAL STATEMENTS AND INTERNAL CONTROL

FINANCIAL STATEMENTS

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

The Board of Directors, operating through its Audit Committee, which is composed entirely of directors who are not officers or employees of the Institute, provides oversight of the financial reporting process and safeguarding of assets against unauthorized acquisition, use or disposition. The Audit Committee annually recommends the appointment of independent public accountants and submits its recommendation to the Board of Directors, and then to the 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.

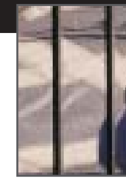
The Institute has assessed its internal control over financial reporting in relation to criteria described in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Institute believes that, as of July 31, 2002, its internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition met those criteria.

J.H. Cohn LLP also was 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
President & CEO

Clarence A. Davis
Chief Operating Officer



REPORTS OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE MEMBERS OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

We have examined management's assertion, included in the accompanying statement of management's responsibilities for financial statements and internal control, that the AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND RELATED ORGANIZATIONS maintained effective internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition as of July 31, 2002, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management is responsible for maintaining effective internal control over financial reporting and over safeguarding of assets, and against unauthorized acquisition, use or disposition. Our responsibility is to express an opinion on management's assertion based on our examination.

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

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

In our opinion, management's assertion that the American Institute of Certified Public Accountants and Related Organizations maintained effective internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition as of July 31, 2002, is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

J.H. Cohn LLP

Roseland, New Jersey
October 18, 2002

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, 2002 and 2001, and the related combined statements of activities, preferred stock and net assets and cash flows for the years then ended. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the American Institute of Certified Public Accountants and Related Organizations as of July 31, 2002 and 2001, and the changes in their net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

J.H. Cohn LLP

Roseland, New Jersey
October 18, 2002

FINANCIAL STATEMENTS
JULY 31, 2002 AND 2001

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND RELATED ORGANIZATIONS

COMBINED STATEMENTS OF FINANCIAL POSITION
JULY 31,

	2002	2001
	($000)	
ASSETS:		
Cash	**$ 11,335**	$ 23,462
Marketable securities	**83,008**	98,160
Accounts and notes receivable (less an allowance for doubtful accounts: 2002, $2,216,000; 2001, $1,570,000)	**14,976**	13,476
Inventories	**986**	1,205
Deferred costs and prepaid expenses	**26,086**	22,702
Goodwill and other intangible assets	**25,115**	4,000
Furniture, technology and leasehold improvements, net	**15,769**	17,901
Totals	**$177,275**	$180,906
LIABILITIES:		
Accounts payable and other liabilities	**$ 40,733**	$ 34,004
Advance dues	**40,275**	35,025
Unearned revenue	**18,256**	17,883
Long-term debt	**7,800**	11,400
Deferred rent	**14,914**	15,094
Deferred employee benefits	**16,713**	16,333
Total liabilities	**138,691**	129,739
PREFERRED STOCK AND NET ASSETS:		
Preferred stock of C2B	**87,074**	47,500
Net assets:		
Unrestricted:		
AICPA and related organizations	**31,582**	44,070
C2B	**(80,720)**	(41,051)
Total unrestricted	**(49,138)**	3,019
Permanently restricted	**648**	648
Total net assets	**(48,490)**	3,667
Total preferred stock and net assets	**38,584**	51,167
Totals	**$177,275**	$180,906

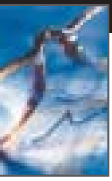
The accompanying notes to financial statements are an integral part of these statements.

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND RELATED ORGANIZATIONS

COMBINED STATEMENTS OF ACTIVITIES
YEAR ENDED JULY 31,

	2002	2001
	($000)	
CHANGES IN UNRESTRICTED NET ASSETS:		
Operating revenue:		
Dues	**$ 72,923**	$ 73,234
Publications and software	**33,281**	33,585
Professional development and member service conferences	**25,582**	30,221
Investment and sundry income	**17,623**	17,669
Professional examinations	**10,842**	8,144
Financial services	**9,603**	433
Contributions	**1,504**	1,661
Total operating revenue	**171,358**	164,947
Operating expenses:		
Program services:		
Publications and software produced for sale	**20,050**	26,949
Professional development and member service conferences	**33,006**	33,448
Member services:		
Regulation and legislation	**27,441**	19,418
Technical	**13,939**	15,689
Publications	**6,121**	6,257
Other	**11,617**	18,297
Professional examinations	**10,065**	12,121
Financial services	**12,660**	778
Communications and public relations	**10,434**	8,113
Support and scholarships	**6,336**	6,500
Assistance programs	**862**	648
Supporting activities:		
General management	**32,174**	25,952
Organization and membership development	**7,369**	8,134
Technology	**14,374**	9,083
C2B technology development	**5,940**	11,286
Total operating expenses	**212,388**	202,673
Deficiency of operating revenue over expenses	**(41,030)**	(37,726)
Gains (losses) on marketable securities:		
Realized	**(107)**	1,597
Unrealized	**(7,817)**	(2,376)
Totals	**(7,924)**	(779)
Change in unrestricted net assets before minority interest	**(48,954)**	(38,505)
Minority interest	**(3,203)**	(1,247)
Change in unrestricted net assets	**(52,157)**	(39,752)
Unrestricted net assets, beginning of year	**3,019**	42,771
Unrestricted net assets, end of year	**$ (49,138)**	$ 3,019

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



COMBINED STATEMENTS OF PREFERRED STOCK AND NET ASSETS
JULY 31,

($000)

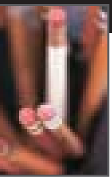
	AICPA and Related Organizations	C2B	TOTAL
2002:			
Preferred stock		$ 87,074	$ 87,074
Net assets:			
Unrestricted	$31,582	(80,720)	(49,138)
Permanently restricted	648		648
Total net assets	32,230	(80,720)	(48,490)
Totals	$32,230	$ 6,354	$ 38,584
2001:			
Preferred stock		$ 47,500	$ 47,500
Net assets:			
Unrestricted	$44,070	(41,051)	3,019
Permanently restricted	648		648
Total net assets	44,718	(41,051)	3,667
Totals	$44,718	$ 6,449	$ 51,167

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

	2002	2001
	($000)	
INCREASE (DECREASE) IN CASH:		
Operating activities:		
Cash received from members and customers	**$172,097**	$168,378
Interest and dividends received	**2,997**	5,237
Cash paid to suppliers, employees and others	**(196,443)**	(176,130)
Interest paid	**(254)**	(107)
Income taxes paid	**(432)**	(996)
Net cash used in operating activities	**(22,035)**	(3,618)
Investing activities:		
Payments for purchase of amortizable assets	**(12,467)**	(11,332)
Payments for purchase of furniture and technology	**(1,773)**	(5,143)
Payments for purchase of marketable securities	**(70,478)**	(105,534)
Proceeds from sale of marketable securities	**77,792**	99,385
Net cash acquired in connection with business acquisitions	**2,900**	
Net cash used in investing activities	**(4,026)**	(22,624)
Financing activities:		
Repayment of long-term debt	**(3,600)**	
Proceeds from sale of common stock and options	**35**	95
Proceeds from sale of preferred stock	**17,499**	47,500
Net cash provided by financing activities	**13,934**	47,595
Net increase (decrease) in cash	**(12,127)**	21,353
Cash, beginning of year	**23,462**	2,109
Cash, end of year	**$ 11,335**	$ 23,462

	2002	2001
RECONCILIATION OF CHANGE IN UNRESTRICTED NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:		
Change in unrestricted net assets	**$ (52,157)**	$ (39,752)
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation and amortization	**11,389**	7,438
(Gain) loss on sale of marketable securities	**107**	(1,597)
Amortization of unearned revenue	**(1,211)**	(1,845)
Unrealized loss on marketable securities	**7,817**	2,376
Minority interest	**3,203**	1,247
Noncash compensation	**745**	451
Equity in and write-down of investment in SSLLC	**336**	461
Donated securities	**(256)**	
Provision for:		
Losses on accounts and notes receivable	**503**	(21)
Obsolete inventories	**842**	306
Purchase commitment	**3,000**	
Deferred rent	**(180)**	(68)
Deferred employee benefits	**1,048**	1,094
Changes in operating assets and liabilities:		
Accounts and notes receivable	**(1,961)**	2,030
Inventories	**(623)**	(182)
Deferred costs and prepaid expenses	**(1,635)**	4,030
Accounts payable and other liabilities	**1,537**	11,878
Advance dues	**5,250**	9,543
Unearned revenue	**879**	(495)
Deferred employee benefits	**(668)**	(512)
Total adjustments	**30,122**	36,134
Net cash used in operating activities	**$ (22,035)**	$ (3,618)

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



NOTES TO COMBINED FINANCIAL STATEMENTS
JULY 31, 2002 AND 2001

1. ORGANIZATION

The financial statements include the accounts of the American Institute of Certified Public Accountants ("AICPA"), its for-profit subsidiaries, CPA2Biz, Inc. ("C2B") and NorthStar Conferences LLC ("NorthStar"), (collectively "AICPA and Subsidiaries"), and the following related organizations: the 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 Subsidiaries 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. Through June 30, 2002, C2B was the sales, marketing and distribution subsidiary for AICPA products and other member services. The AICPA renegotiated its contract with C2B effective July 2002 to make C2B the exclusive online and offline marketing agent for certain products and services of the AICPA and for maintaining the official Web site for the sale of AICPA products (see Note 12). NorthStar provides professional development programs and conferences for various industries (see Note 3). 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 (see Note 11). 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 AICPA and State Societies Network, Inc. are equal percentage members of Shared Services, LLC ("SSLLC"), a limited liability company, organized for the purpose of managing a consolidated membership database and other shared services between the AICPA and participating state societies (see Note 13).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

All significant intercompany accounts and transactions have been eliminated in combination.

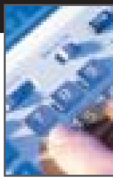
Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with unrealized gains and losses included in the statement of activities.

Contributions are recorded as unrestricted, temporarily restricted or permanently restricted when received depending on the existence and/or nature of any donor restrictions. Donated marketable securities are recorded as contributions at their estimated fair values at the date of donation.

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

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, 2002, 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, technology and leasehold improvements are stated at cost, less accumulated depreciation or amortization computed on the straight-line method. Furniture and technology are depreciated over their estimated useful lives of three to ten years. Leasehold improvements are amortized over the shorter of their useful lives or the remainder of the lease period.

The AICPA accounts for its 50% investment in SSLLC on the equity method.

Dues are recorded in the applicable membership period.

Revenue from publications and software, professional development and member service conferences and professional examinations are recognized when goods are shipped to customers or services are rendered.

Revenue from subscriptions is deferred and recognized on the straight-line method over the term of the subscriptions, which 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. Total promotion and advertising expenses were $10,704,000 and $8,491,000 for the years ended July 31, 2002 and 2001.

The Institute accounts for its Web site development costs in accordance with Emerging Issues Task Force Issue No. 00-2, *Accounting for Web Site Development Costs* and Statement of Position 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use* (SOP 98-1). All costs incurred in the planning stage of developing a Web site are expensed as incurred as are internal and external training costs and maintenance costs. Fees incurred to Internet service providers in return for hosting a Web site on their servers are expensed over the period of benefit.

External and internal costs, excluding general and administrative costs and overhead costs, incurred during the application development stage of internal use Web site software are capitalized. Such costs include external direct costs of materials and services consumed in developing or obtaining Web site software, payroll and payroll-related costs for employees who are directly associated with and who devote time to developing Web site software, and interest costs incurred while developing Web site software. Upgrades and enhancements that result in additional functionality to the Web site software, which enable it to perform tasks that it was previously incapable of performing, are also capitalized.

Capitalized internal use Web site development costs are amortized on the straight-line method over its estimated useful life of three years and begins when all substantial testing of the Web site is completed and the Web site is ready for its intended use.

The AICPA accounts for other computer software developed for internal use in accordance with SOP 98-1. All costs in the preliminary project stage are expensed as incurred. Internal and external costs, excluding general and administrative costs, incurred during the application development stage are capitalized. Upgrades and enhancements that result in additional functionality to existing software, which enable it to perform tasks that it was previously incapable of performing, are also capitalized.

Certain external and internal costs related to the development of the computerization of the Uniform CPA Examination are being deferred until the launch of the examination in May 2004. Included in deferred costs and prepaid expenses at July 31, 2002 is approximately $5,946,000 of related deferred costs. Other costs related to the computerization of the Uniform CPA Examination are expensed as incurred. Such costs amounted to $274,000 and $1,637,000 for the years ended July 31, 2002 and 2001 (see Note 9).

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business acquisitions accounted for under the purchase accounting method. Other intangibles include identifiable intangible assets purchased by C2B, primarily in connection with business acquisitions. Intangibles with a definite life are presented net of related accumulated amortization and impairment charges and are being amortized over five years. Goodwill and indefinite-lived intangibles are accounted for under a nonamortization approach and are evaluated annually for impairment.

The Institute records impairment losses on goodwill and other intangible assets when events and circumstances indicate that such assets might be impaired and the estimated fair value of the asset is less than its recorded amount. Conditions that would necessitate an impairment assessment include material adverse changes in operations, significant adverse differences in actual results in comparison with initial valuation forecasts prepared at the time of acquisition, a decision to abandon acquired products, services or technologies, or other significant adverse changes that would indicate the carrying amount of the recorded asset might not be recoverable.

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. C2B and NorthStar are organized as for-profit entities. NorthStar, however, is organized as a single member LLC.

As a single member LLC, any taxable income or loss of the LLC is passed on to the member and taxable in accordance with the member's tax status. Accordingly, NorthStar's unrelated business income will be incorporated into the unrelated business income of the AICPA.

C2B accounts for income taxes pursuant to the asset and liability method which requires deferred income tax assets and liabilities to be computed annually for temporary differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the temporary differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

C2B follows Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123). Under SFAS No. 123, C2B continues to apply Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), to account for its stock-based employee compensation arrangements.

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 2001 financial statements have been reclassified to conform with the current year's presentation.

3. ACQUISITION

In February 2002, the AICPA acquired certain assets and assumed certain liabilities of EEI Training LLC, a provider of professional development programs and conferences for various industries. The purchase price consisted of cash of approximately $369,000 and approximately $260,000 of direct acquisition costs. A summary of the allocation of the purchase price is as follows:

	($000)
Net liabilities assumed	$ (223)
Goodwill	852
	$ 629

Shortly after the acquisition, the name was changed to NorthStar Conferences LLC.

4. MARKETABLE SECURITIES

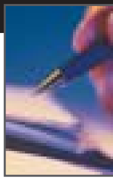
Marketable securities consist of:

	2002	2001
	($000)	
U.S. Treasury obligations	**$20,191**	$22,644
Bonds and notes	**28,638**	48,405
Equities	**34,179**	27,111
Total fair value	**83,008**	98,160
Unrealized gains (losses)	**(5,912)**	1,905
Total cost	**$88,920**	$96,255

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

Investment income consists of:

	2002	2001
	($000)	
Dividends and interest	**$ 2,997**	$ 4,661
Realized gains (losses)	**(107)**	1,597
Unrealized losses	**(7,817)**	(2,376)
	$ (4,927)	$ 3,882



5. INVENTORIES

Inventories consist of:

	2002		2001
		($000)	
Paper and material stock	**$ 112**		$ 144
Publications in process	**177**		145
Printed publications and course material	**697**		916
	$ 986		$ 1,205

6. FURNITURE, TECHNOLOGY & LEASEHOLD IMPROVEMENTS

Furniture, technology and leasehold improvements consist of:

	2002		2001
		($000)	
Furniture	**$ 8,007**		$ 7,861
Technology	**30,907**		27,638
Leasehold improvements	**15,655**		15,471
	54,569		50,970
Less accumulated depreciation and amortization	**38,800**		33,069
	$15,769		$17,901

7. INTANGIBLE ASSETS

Intangible assets are as follows:

	2002		2001
		($000)	
Goodwill	**$18,204**		$ 4,000
Other intangibles	**7,428**		
Less accumulated amortization	**517**		
Other intangibles, net	**6,911**		
	$25,115		$ 4,000

Amortization expense on intangible assets with definite lives amounted to approximately $517,000 for the year ended July 31, 2002. Estimated amortization expense in each of the five years subsequent to July 31, 2002 is approximately $1,129,000 annually through 2006 and $612,000 in 2007.

8. LONG-TERM DEBT

Long-term debt consists of the following:

	2002		2001
		($000)	
AICPA (A)	**$1,200**		$ 1,200
C2B (B)	**3,600**		7,200
Acquired entities (C)	**3,000**		3,000
	$7,800		$11,400

(A) The note bears 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 $761,000.

(B) The note is unsecured, bears interest at 10% and required principal payments of $3,600,000 in September 2001; $600,000 in August 2002; and $3,000,000 in October 2003. The AICPA has no obligation under the note.

Subsequent to July 31, 2002, the note was restructured such that the August 2002 and October 2003 principal payments will be payable in March 2004.

(C) The note arose in connection with the acquisition of Capital Professional Advisors, Inc. (see Note 12) and bears interest at 8% per annum. The principal is payable $510,000 in September 2002; $1,245,000 in June 2003; and $1,245,000 in June 2004. The note is secured by all of the outstanding common stock of the acquired entities. The AICPA has no obligation under the note.

In September 2002, C2B negotiated with the holder of the note to settle the note for $2,153,000. The payment is due upon the closing of the sale of the acquired entities for which C2B has a letter of intent.

Based on borrowing rates currently available, the fair value of long-term debt at July 31, 2002 is approximately $7,273,000.

Principal amounts due under the above obligations in years subsequent to July 31, 2002 are $2,153,000 in 2003; $3,600,000 in 2004; and $1,200,000 in 2014.

9. COMMITMENTS AND CONTINGENCIES

Computerization of the Uniform CPA Examination

In connection with the computerization of the Uniform CPA Examination ("Examination"), the AICPA is party to an agreement with the National Association of State Boards of Accountancy ("NASBA") and Prometric, Inc. ("Prometric"). Pursuant to the agreement, the AICPA is required to deliver the Examination in a computer-based format by May 2004. NASBA will develop and maintain the National Candidate Database, which serves as the gateway for candidates applying to take the Examination. Prometric is responsible for providing scheduling, test preparation, test delivery and results processing of the Examination in a computer-based testing environment consistent with AICPA and NASBA requirements.

The agreement provides for the AICPA to "break even" with regard to costs incurred in developing the Examination, which are estimated to approximate $20,000,000. Through July 31, 2002, the AICPA has incurred approximately $5,946,000 of such costs, all of which have been deferred. Upon launch of the Examination in May 2004, the AICPA will receive fees through NASBA, based upon the number of examinations taken.

Prometric will provide the AICPA with an interest-free line of credit of up to $10,000,000 to facilitate the conversion of the Examination from a paper-based to a computer-based format. Fees to Prometric for its services are payable to Prometric based upon the volume of test hours, which are scheduled to commence on or before May 2004. Beginning with the commencement of the computerized Examination, the AICPA is required to repay the borrowings under the line of credit. The required annual principal payments are equal to $4.00 per test section administered by Prometric but not less than one-seventh of the amount borrowed under the line of credit as of the date of the commencement of the computerized Examination. As of July 31, 2002, the AICPA has not borrowed any amounts under the line of credit. The initial term of the agreement is seven years from the date of the commencement of the computerized Examination; however, such term can be extended through 2014 based upon certain performance criteria.

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 $14,898,000 and $15,093,000 as of July 31, 2002 and 2001.

Minimum rental commitments on noncancelable real estate and equipment leases in effect as of July 31, 2002, exclusive of future escalations for real estate taxes and building operating expenses, are:

YEAR ENDING JULY 31,	($000)
2003	$12,369
2004	11,964
2005	11,766
2006	10,557
2007	8,330
Years subsequent to 2007	33,210
	$88,196

Rental expense for the years ended July 31, 2002 and 2001 was $13,525,000 and $11,912,000.

During 2000, the AICPA entered into a noncancelable sublease. The total of minimum rentals to be received in the future under the sublease, which expires in 2012, amounts to $14,464,000 as of July 31, 2002. Sublease income amounted to $1,398,000 and $1,395,000 for the years ended July 31, 2002 and 2001.

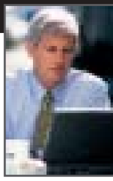
Lines of Credit

In addition to the line of credit by Prometric, the AICPA has available, but unused, a line of credit with a bank for short-term borrowings of up to $20,000,000, at the bank's prevailing interest rate. Any amounts outstanding under this line of credit are collateralized by an account holding marketable securities which may not fall below $33,000,000. At July 31, 2002, the account has securities with a market value of $33,073,000. The line of credit expires on January 31, 2003.

Other Transactions

During the year ended July 31, 2001, C2B entered into a two-year agreement with one of its Preferred Stock Investors ("PSI") whereby C2B has agreed to use the PSI's technology and other services of the PSI on an as-needed basis. However, at a minimum, C2B is required to use approximately $500,000 of such services. Through July 31, 2002, C2B has used approximately $310,000 of services.

In addition, C2B has entered into an agreement with another PSI to purchase a minimum of $5,000,000 of products and services to be sold to C2B customers through September 2003. Through July 31, 2002, C2B paid $1,500,000 in advance for the receipt of such products and accrued payments for an additional $1,500,000.



As C2B has not generated significant revenue related to these products and services, C2B has provided a full valuation allowance on the amounts recorded under the commitment.

C2B has suspended payment under the agreement.

Pursuant to an operating agreement between C2B, the original investors ("Original Investors") of the acquired entities (see Note 12), certain other entities, certain employees of the Original Investors and certain representatives of the other entities, the parties agreed to a bonus payment which required C2B to pay the Original Investors an aggregate of $360,000 in January 2002. In addition, if during the two-year period ending July 2003 the Original Investors meet certain marketing and performance levels, C2B is required to pay up to approximately $2,900,000 in either cash or common stock to such Original Investors.

Litigation

In October 2001, a national accounting firm brought an action against the AICPA, C2B and SSLLC alleging, among other things, restraint of trade and unfair competition, which seeks to enjoin the defendants from continuing the operations of C2B. Management of the AICPA, C2B and SSLLC believe the action is without merit.

10. EMPLOYEE BENEFIT PLANS

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

	May 1	
	2002	2001
	($000)	
Projected benefit obligation	**$59,130**	$53,430
Plan assets available for benefits at fair value	**54,156**	56,992
Plan assets in excess of (less than) projected benefit obligation at end of year	**$ (4,974)**	$ 3,562
Accrued pension cost	**$ (5,374)**	$ (5,595)

Net pension income was $221,000 and $169,000 for the years ended July 31, 2002 and 2001. Benefits paid amounted to $2,233,000 and $2,584,000. There were no employer contributions in 2002 and 2001.

Economic Assumptions:	**2002**	2001
Discount rate	**7.00%**	7.25%
Expected long-term rate of return on plan assets	**8.75%**	9.00%
Rate increase in future compensation levels	**4.00%**	4.65%

The AICPA and C2B also sponsor separate 401(k) defined contribution plans covering substantially all employees meeting minimum age and service requirements. Participation in the plans is optional. Employer contributions are made to the plans in amounts equal to a certain percentage of employee contributions. The cost of these plans was $988,000 and $905,000 for the years ended July 31, 2002 and 2001.

The Institute sponsors employee postretirement health care and life insurance plans and contributes toward the annual cost of retirees remaining in these plans. Net periodic postretirement benefit cost for the years ended July 31, 2002 and 2001 was $1,269,000 and $1,263,000.

The accumulated postretirement obligation as of May 1, 2002 and 2001 was $12,899,000 and $11,552,000. Accrued postretirement benefit costs included in the accompanying statement of financial position were $11,474,000 and $10,737,000.

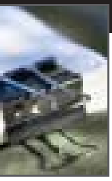
The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7% and 7.25% in 2002 and 2001. The weighted average health care cost trend rate used in measuring the postretirement benefit expense was 9% and 8.5% in 2002 and 2001 gradually decreasing to 5.5% in 2008 and remaining at that level thereafter.

The Institute funds the cost of these plans on the cash basis and in 2002 and 2001 paid $533,000 and $513,000.

11. 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 2002, the AICPA also made a $50,000 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 annual commitment was $2,850,000 for both calendar years 2002 and 2001. The ARA also makes a best-efforts commitment to raise funds for support of the GASB. The annual commitment was $490,000 for both calendar years 2002 and 2001. It is anticipated the ARA will continue to support the GASB. Effective with the



passage of the Sarbanes-Oxley Act on July 30, 2002, the future funding of the FASB is expected to be provided through the newly created Public Company Accounting Oversight Board (see Note 16).

12. CPA2BIZ, INC.

The AICPA, with authorization from the Board of Directors and Council, organized C2B during 2000 for the purpose of creating a CPA channel (electronic distribution of existing and future AICPA products) and CPA2Biz (business-to-business e-commerce solutions for AICPA members and their clients and employers).

In January 2001, the AICPA and C2B entered into an agreement (the "Agreement") which gave C2B exclusive rights to market, sell and distribute substantially all of the commercial products of the AICPA and other third-party products. Under the terms of the Agreement, C2B was required to pay a variable royalty, which was calculated as a percentage of net sales, as defined, and a fixed royalty (the "Royalty"). The Royalty was intended to provide the AICPA with its historical profit related to the products licensed to C2B assuming the historical levels of sales volume and product mix remain the same. Separate from the terms of the Agreement, C2B also purchased, at recorded value, certain operating assets, assumed certain liabilities and reimbursed the AICPA for certain operating expenses paid by the AICPA prior to February 1, 2001 for a net payment of $15,110,513. Additionally, C2B leased office space from the AICPA in New York and New Jersey at an annual rental of approximately $3,068,000. All of the above has been eliminated in combination.

Effective July 2002, the Agreement was amended (the "New Agreement") to modify the relationship between the AICPA and C2B. Under the New Agreement, C2B became the exclusive online and offline marketing agent for certain products and services of the AICPA (the "AICPA Marketed Products"). C2B is also responsible for maintaining the official Web site for the sale of AICPA Marketed Products. As consideration for providing such services, C2B is entitled to receive a commission, which is calculated as a percentage of sales as defined in the New Agreement. The New Agreement further provides for various royalties to be paid by each party to the other in exchange for the sale and distribution of non-AICPA Marketed Products. In addition, C2B will lease office space from the AICPA in New York and New Jersey at an annual rental of approximately $271,000. The AICPA purchased, at recorded value, certain operating assets and assumed certain liabilities from C2B. The recorded value of the liabilities assumed exceeded the recorded value of the assets received by $4,312,000. Accordingly, the AICPA received a note for such amount from C2B which has been eliminated in combination.

The note and all interest thereon shall be repaid in full by C2B on September 30, 2004. Interest will accrue on outstanding principal at the rate of 8%. C2B may prepay the principal in whole or in part at any time. This note is collateralized by C2B's Web site technologies.

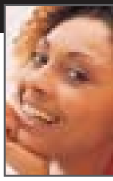
In February 2002, the Board of Directors of C2B approved a 400-to-1 stock split of C2B's common and preferred stock. All references to the number of shares, per share amounts, cash dividends, and any other reference to shares in the financial statements and the accompanying notes, unless otherwise noted, have been adjusted to reflect the split on a retroactive basis. Previously awarded stock options and all other agreements payable in shares of C2B's common stock have been adjusted or amended to reflect the split.

The aggregate number of shares of all classes of stock which C2B is authorized to issue is (i) 120,000,000 shares of common stock, par value $.01 per share ("Common Stock") and (ii) 40,000,000 shares of preferred stock, par value $.01 per share, of which 24,000,000 shares shall be designated 8% Series A Convertible Mandatory Redeemable Preferred Stock (the "Series A Preferred Stock") and 8,000,000 shares designated 8% Series B Convertible Mandatory Redeemable Preferred Stock (the "Series B Preferred Stock").

As of July 31, 2002, the 8,000,000 authorized shares of preferred stock, which are not considered to be either Series A or Series B Preferred Stock, have not been issued.

Common Stock has voting rights, but no liquidation privileges. Dividends can only be paid after the holders of Series A and Series B Preferred Stock have received the dividends to which they are entitled.

During the year ended July 31, 2000, C2B sold 40,000,000 shares of Common Stock. The AICPA and other co-founders of C2B purchased 38,060,000 shares of Common Stock for approximately $950. Shares purchased by the co-founders were acquired for less than fair value and, accordingly, the difference between the amount paid and the fair value of approximately $181,000 was recorded as compensation. Senior management of the AICPA purchased 1,940,000 shares of Common Stock for $169,750 based on an independent third-party valuation obtained at formation. Such shares were donated to the Foundation in July 2002. During the year ended July 31, 2001, C2B sold shares for approximately $145,000. The shares were purchased by outside third parties including outside directors of C2B. All of the shares were purchased for fair value with the exception of one transaction with an outside director in 2001 for 52,000 shares for approximately $50,000. A note receivable was received in lieu of cash. The note was paid in October 2001. Compensation expense of $171,472 was recorded for the difference between the amount paid and the fair value of the stock for the transaction with the outside director. In addition, C2B issued 10,031,791 shares in 2002 and 392,000 shares in 2001 in connection with acquisitions.



The following table summarizes the common shares issued by C2B during the years ended July 31, 2002 and 2001:

	Number of Shares	Common Stock	Additional Paid-in Capital
Balance, August 1, 2000	40,000,000	$ 1,000	$ 349,900
C2B directors and employees	98,800	2	94,988
Below market shares	52,000	1	221,469
Issuance of below market options			2,550,471
Acquired entity	392,000	10	139,990
Balance, July 31, 2001	40,542,800	1,013	3,356,818
Effects of stock split on common stock and additional paid-in capital		404,415	(404,415)
Acquired entity	10,031,791	100,318	2,647,473
Issuance of options in connection with acquired entity			169,434
Effects of purchase adjustment on prior year's acquisition			1,050,000
Issuance of stock for services	161,499	1,615	823,895
Exercise of options	1,534	16	10,292
Cancellation of below market options			(2,550,471)
Balance, July 31, 2002	50,737,624	$507,377	$5,103,026

The Series A Preferred Stock differs from Common Stock in that it receives preferential status in the case of a liquidation, receives cumulative dividends at a rate of 8% before any Common Stock dividends can be paid, converts into Common Stock at the option of the holder, has an anti-dilutive provision which, based on a defined formula, increases the number of shares of Common Stock issued for each share of Series A Preferred Stock if a Common Stock transaction is completed with a lower per share price than the initial Series A Preferred Stock price of $4.26 per share and is, at the option of the holder, redeemable by C2B on January 11, 2008. The Series A Preferred Stock is senior in liquidation to the Series B Preferred Stock.

Dividends shall be payable in additional shares of Series A Preferred Stock or cash, at the option of C2B. During the years ended July 31, 2002 and 2001, C2B accrued, but did not pay $4,716,586 and $1,933,302 of Series A Preferred Stock dividends.

The holders of Series A Preferred Stock vote with the holders of Common Stock as if they were a single class.

On January 11, 2001, C2B issued 9,388,000 shares of Series A Preferred Stock for net proceeds of $39,999,280. An additional 1,760,000 shares of Series A Preferred Stock were issued on April 6, 2001, which resulted in proceeds of $7,500,000.

In October 2001, C2B issued 1,955,992 shares of Series A Preferred Stock for net proceeds of approximately $10,000,000. An additional 1,466,849 shares of Series A Preferred Stock were issued in February 2002, which resulted in proceeds of $7,500,000.

In addition to the purchase of Series A Preferred Stock, certain investors received a fully vested warrant to purchase an additional 2,484,356 shares of Series A Preferred Stock for an aggregate exercise price of approximately $62. As a result of this arrangement, C2B has recorded a "deemed dividend" of $2,093,199 in the year ended July 31, 2002. The warrants will expire upon conversion or redemption of the Series A Preferred Stock. The full benefit of this arrangement will be recognized over the anticipated life of the Series A Preferred Stock.

The Series B Preferred Stock differs from Common Stock and Series A Preferred Stock in that it is senior to Common Stock, but junior to Series A Preferred Stock in the case of a liquidation and the payment of dividends. Series B Preferred Stock receives cumulative dividends at a rate of 8% before any Common Stock dividends can be paid, converts into Common Stock at the option of the holder, has an anti-dilutive provision which increases the number of shares of Common Stock issued for each share of Series B Preferred Stock if a Common Stock transaction is completed with a lower per share price than the initial Series B Preferred Stock price of $5.11 per share and is, at the option of the holder, redeemable by C2B on February 19, 2009.

Dividends shall be payable in additional shares of Series B Preferred Stock or cash, at the option of C2B. During the year ended July 31, 2002, C2B has accrued, but not paid, $718,741 of Series B Preferred Stock dividends.

Included in accounts payable and other liabilities at July 31, 2002 and 2001 is $7,368,629 and $1,933,302 related to accrued but unpaid preferred stock dividends. Minority interest for the years ended July 31, 2002 and 2001 is net of preferred stock dividends.

In September 2000, C2B established a stock option plan (the "C2B Plan"). As part of the acquisition of Rivio, Inc. ("Rivio"), C2B adopted the former stock option plan that Rivio had for its employees prior to the acquisition. The former Rivio stock option plan was renamed the CPA2Biz, Inc. 1999 Stock Incentive Plan for California Employees (the "California Plan"). The former Rivio stock options were converted according to the exchange ratio used in the acquisition of Rivio into California Plan stock options which grant the holder the right to purchase C2B stock. The C2B Plan and the California Plan (collectively the "Plans") provide for the issuance of stock options solely to key employees and consultants of C2B and not AICPA employees. Under the terms of the Plans, incentive stock options are granted to eligible employees to purchase shares of Common Stock in C2B at a price not less than 100% of the fair market value on the date of grant. The Plans allow for nonqualified grants of stock options with an exercise price set below the fair market value of the Common Stock when approved by the C2B Board of Directors. There were two such grants made to employee officers of C2B during the year ended July 31, 2001, which resulted in $2,550,471 of deferred compensation. The deferred compensation expense was being amortized over the vesting period of the related options. Amortization expense for the year ended July 31, 2001 was $279,976. During the year ended July 31, 2002, the two employees who received options below fair market value terminated their employment with C2B and did not vest in the options. Accordingly, deferred compensation and the previously recognized expense related to these options was reversed. As part of the acquisition of Capital Professional Advisors, Inc. ("CapPro"), C2B assumed options which had a corresponding deferred compensation charge of $134,871. The amortization to compensation expense of these options for the year ended July 31, 2002 was $78,947. The options generally vest over a period of four years and are exercisable for a period of ten years from the date of grant. Under the Plans, C2B reserved 8,863,600 shares of Common Stock at July 31, 2002.

The following table summarizes activity under the Plans:

	Shares Under Option	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
Granted	5,643,200	$1.61		
Cancelled	(134,400)	2.12		
Outstanding at July 31, 2001	5,508,800	1.57		
Granted	2,952,304	2.39		
Exercised	(1,534)	6.72		
Cancelled	(2,964,875)	1.69		
Outstanding at July 31, 2002	5,494,695	2.04	2,797,088	$1.07

The following table summarizes information about stock options outstanding under the Plans at July 31, 2002:

	Options Outstanding		
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$0.00 – $0.38	1,489,518	9.5 years	$0.38
0.39 – 0.44	109,446	9.5 years	0.45
0.45 – 1.00	2,161,316	8.2 years	0.96
4.26 – 5.00	434,961	8.6 years	4.26
5.01 – 5.12	1,299,120	9.4 years	5.11
5.13 – 6.72	334	9.5 years	6.72
	5,494,695		$2.04

As permitted by SFAS 123, C2B applies APB No. 25 and related interpretations in accounting for its Plan and other stock-based compensation issued to employees.

The weighted-average fair value of options granted during the years ended July 31, 2002 and 2001 was approximately $.59 and $.38.

Had compensation cost been determined based upon the fair value at the grant date for awards under the Plans consistent with the methodology prescribed under SFAS 123, C2B's net loss would have been increased by approximately $345,000 and $220,000 for the years ended July 31, 2002 and 2001. The fair values of options granted to employees have been determined on the date of the respective grant using the Black-Scholes option pricing model incorporating the following weighted-average assumptions: (i) range of risk-free interest rates from 3.99% to 6.18%; (ii) dividend yield of 0.00%; (iii) expected life of five years; and (iv) volatility of 0.001%.

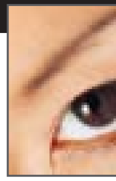
In July 2001, C2B acquired all the outstanding shares of CapPro. The purchase price consisted of the issuance of a $3,000,000 note (see Note 8), the issuance of 392,000 shares of Common Stock and approximately $860,000 of other direct acquisition costs. At July 31, 2001, based upon a preliminary valuation of CapPro, the purchase was recorded at a price of $4,000,000 and, accordingly, the 392,000 common shares issued were recorded at $140,000. As the final valuation of CapPro reflected a value of approximately $5,050,000, an additional $1,050,000 was recorded as goodwill and additional paid-in capital during the year ended July 31, 2002.

Contemporaneously with the acquisition, C2B and the former stockholders of CapPro entered into a commercial services agreement which provided that if the former stockholders did not meet certain performance obligations by July 30, 2003, then those stockholders, at C2B's option, could forfeit 50% of the C2B Common Stock that was received in the acquisition transaction. As such, no amounts were recorded for these shares through July 31, 2002.

In addition, the former stockholders of CapPro are entitled to earn up to 575,200 of additional shares of Common Stock, contingent upon meeting certain performance levels. In connection therewith, C2B issued 161,499 shares of Common Stock with a fair value of $823,895 during the year ended July 31, 2002.

The acquisition was accounted for under the purchase method of accounting.

In February 2002, C2B acquired all the outstanding shares of Rivio, a provider of Web-based business operation tools for small businesses, in exchange for the issuance of 3,910,310 shares of Series B Preferred Stock, 10,031,791 shares of Common Stock and vested stock options to purchase 1,543,508 shares of Common Stock at an exercise price of $.3902 per share through February 2012.



A summary of the purchase price is as follows:

	($000)
Issuance of Series B Preferred Stock	$ 19,982
Issuance of Common Stock	2,748
Issuance of vested stock options	169
Other direct acquisition costs	767
	$ 23,666

A summary of the allocation of the purchase price is as follows:

Tangible assets acquired	$ 3,684
Trade name	1,783
Technology	3,120
Contracts	2,525
Goodwill	12,554
	$ 23,666

Goodwill represents the excess of purchase price over the fair value of identifiable net assets acquired. Trade name represents the estimated fair value of the Rivio product name on the date of acquisition. Technology represents the fair value of Rivio applications and other technologies on the date of acquisition. Contracts represent the fair value of Rivio customer contracts on the date of acquisition.

Summarized consolidated financial information of C2B as of and for the years ended July 31, 2002 and 2001 is as follows:

	2002	2001
	($000)	
Total assets	**$ 44,446**	$ 52,112
Total liabilities	**$ 31,574**	$ 42,219
Preferred stock	**87,074**	47,500
Common stockholders' deficiency	**(74,202)**	(37,607)
	$ 44,446	$ 52,112
Revenue	**$ 29,555**	$ 10,660(A)
Net loss	**$(33,843)**	$(36,150)

(A) Restated for comparative purposes due to amended agreement.

As shown above, since inception C2B has suffered significant losses and at July 31, 2002, has a common stockholders' deficiency of approximately $74,000,000, which has been primarily funded by the preferred stockholders. Based on these factors, C2B may be unable to continue as a going concern.

In response to current market conditions and as a part of its ongoing corporate strategy, C2B has completed several initiatives intended to increase liquidity and better position C2B under current market conditions. C2B believes it will be able to achieve profitability and positive cash flow in the future through these initiatives:

- Renegotiated agreement with the AICPA;
- Restructuring of operations and cost cutting programs; and
- Focus on selling core products being offered to AICPA members and others.

In addition, C2B is exploring the addition of incremental strategic relationships with third parties and also the equity markets in order to satisfy its current and future capital requirements. Although C2B has satisfied its current operating needs through the equity markets, there is no assurance that C2B will secure the necessary financing to achieve its operational goals in the future.

Also, C2B intends to sell a subsidiary and has negotiated a binding letter of intent with a related party. Upon completion of the sale, management of C2B estimates that at least $2,153,000 of cash will become available to repay long-term debt (see Note 8).

Management of C2B believes that implementation of these initiatives will provide sufficient cash flow for the next twelve months. However, if C2B's 2003 planned cash flow projections are not met, C2B's ability to operate could be adversely affected. Although no assurances can be given, C2B's management remains confident that C2B will be able to continue operating as a going concern.

At July 31, 2002, the AICPA has approximately 55% of C2B's voting rights. Accounting principles generally accepted in the United States of America require that, as the holder of the majority of voting rights, the AICPA include the accounts of C2B in its financial statements even though the AICPA is not responsible for any liabilities of C2B. Should the AICPA cease to have voting control, C2B would no longer be included in the financial statements of the AICPA, the effect of which would be the reversal of approximately $80,000,000 of previously recorded losses.

At July 31, 2002, C2B has deferred tax assets of approximately $52,000,000 which arise primarily from net operating loss carryforwards for Federal income tax purposes of approximately $127,000,000 expiring in 2022 and certain other temporary differences. Included in these net operating losses are pre-acquisition losses for Rivio and CapPro of approximately $67,000,000 which are subject to annual limitations. Due to the uncertainty of the realization of the deferred tax assets, a full valuation allowance has been provided at July 31, 2002. The timing and manner in which the net operating loss carryforward can be utilized in any year by C2B may be limited by the Internal Revenue Code.

13. SHARED SERVICES, LLC

SSLLC's members consist of the AICPA and State Societies Network, Inc. ("SSNI"). SSNI is composed of substantially all of the individual state societies of certified public accountants located throughout the United States.

Pursuant to an interim agreement with C2B, SSLLC received royalties in the amount of 1.75% of C2B's gross profits, as defined. Such royalties were paid to SSNI. In addition, SSLLC was to receive additional royalties from C2B based on operating expenses incurred up to a maximum of $5,000,000 annually. The relationship between C2B and SSLLC terminated in May 2002 and, since that date, SSLLC has had no operating revenue.

At July 31, 2002 and 2001, SSLLC has a receivable from C2B in the amount of $1,297,000 which has been discounted to approximately $797,000 at July 31, 2002. In connection with the New Agreement between the AICPA and C2B discussed in Note 12, C2B is required to repay the receivable to SSLLC in monthly installments of $150,000.

As SSLLC has not had operating revenue since May 2002, the AICPA has written down its equity investment of approximately $335,000 in SSLLC to zero at July 31, 2002.

Summarized financial information of SSLLC as of and for the years ended July 31, 2002 and 2001 is as follows:

	2002	2001
	($000)	
Total assets	**$1,205**	$1,374
Total liabilities	**536**	703
Members' equity	**$ 669**	$ 671
Revenue	**$2,088**	$4,231
Net loss	**$ (2)**	$ (921)
AICPA's share of net loss	**$ (1)**	$ (461)

In June 2002, the AICPA agreed to fund SSLLC $150,000 for the months of August and September 2002. No additional commitments have been made subsequent to September 2002.

14. NET ASSETS

Net assets and changes in net assets for the years ended July 31, 2002 and 2001 follow:

	Balance, August 1, 2000	Increase (Decrease)	Balance, July 31, 2001	Increase (Decrease)	**Balance, July 31, 2002**
			($000)		
Unrestricted:					
AICPA	$34,664	$ (1,334)	$33,330	$(13,135)	**$ 20,195**
C2B	(2,494)	(38,557)	(41,051)	(39,669)	**(80,720)**
Division	2,211	(522)	1,689	1,486	**3,175**
ARA	981	14	995	(565)	**430**
Benevolent Fund	3,818	367	4,185	(166)	**4,019**
Foundation	3,591	280	3,871	(108)	**3,763**
	42,771	(39,752)	3,019	(52,157)	**(49,138)**
Restricted:					
Foundation:					
Library Fund	648		648		**648**
	$43,419	$(39,752)	$ 3,667	$(52,157)	**$(48,490)**

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

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1211 Avenue of the Americas • New York, NY 10036-8775
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