

**AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS**

**FALL MEETING OF COUNCIL/ANNUAL MEMBERS' MEETING**

**OCTOBER 20-22, 2013 – LOS ANGELES, CALIFORNIA**

**MINUTES OF MEETING**

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A meeting of the Council of the American Institute of Certified Public Accountants convened at 2:30 pm on Sunday, October 20, 2013, at the JW Marriott L.A., Los Angeles, California.

Richard Caturano, Chairman of the Board, presided.

### **Attendance**

A record of attendance for the Council is listed in **Appendix A** in the official minute records of the AICPA.

## **SUNDAY, OCTOBER 20, 2013**

### **Welcome, Opening Remarks and Official Matters by the Chairman of the AICPA Board**

Richard Caturano, Chairman of the Board, called the meeting to order, and gave brief comments on the changes which need to happen within the profession in the area of diversity and inclusion. He outlined the agenda for the meeting, then declared a quorum to be present and moved to the first agenda item.

### **Election to Fill the Vacancy on the Board of Directors**

Richard Caturano announced that in accordance with Bylaw 6.5, the Board of Directors is recommending Myriam Madden, Vice President of CIMA, to fill the unexpired term of Gulzari Babber ending in October 2014. Upon a motion duly made and seconded, the members of Council approved the election of Ms. Madden to fill the vacancy for the duration of the unexpired term.

### **Approval of the Minutes of 2013 Spring Meeting of Council**

Richard Caturano indicated that the minutes of the 2013 Spring Meeting of Council had been distributed prior to the meeting and asked for a motion to approve them.

Upon a motion duly made and seconded, the minutes of the Spring 2013 Meeting of Council were approved.

### **Report on the National Commission on Diversity & Inclusion**

Kenneth Bouyer, Chair of the National Commission on Diversity & Inclusion, gave an update on matters on which the Commission has focused over the course of the year since the Commission was implemented, e.g., focusing on retention and advancement for minority professionals. He noted some of the factors influencing the focus on diversity and inclusion included increased global competitiveness, increased diversity in the labor market, increased minority-owned businesses, and the low percentage of diverse students studying accounting and getting their CPA. Mr. Bouyer announced the Diversity Maturity Model

that will launch in spring 2014 which will include an assessment allowing an organization to see exactly where it is on the maturity model. He also announced the creation of Retention and Advancement Playbooks, also launching in spring 2014, to assist organizations in the area of diversity & inclusion.

### **Guest Speaker on Diversity & Inclusion**

Dr. James Johnson, UNC Kenan-Flagler Professor of Strategy & Entrepreneurship, gave a presentation on Disruptive Demographics, including the challenges, changes, and the impact the demographic shift is going to have on the accounting profession. He discussed immigration, U.S. population growth by race and ethnicity, the graying of America, and other transformative demographic trends that are and will continue to impact the workplace. He stated that successful recruitment and retention will hinge on each organization's ability to manage all of the diversity issues.

### **Report on the AICPA Foundation**

Randy Fletchall, President-Elect of the AICPA Foundation and former Chairman of the AICPA, gave a report on the programs, initiatives, and activities the Foundation has been involved with in recent years. He gave an update on the Accounting Doctoral Scholars (ADS) Program, which is in its fifth year. Including the ADS Scholars who have already graduated, there are 113 individuals in the program at 42 different universities, funded by 68 accounting firms, 49 State Societies, the AICPA, and others. The 12 ADS Scholars who have graduated were actively recruited and have accepted faculty positions at universities across the U.S. He highlighted some of the outstanding contributions these scholars are making, and will continue to make, as they teach.

He also gave an update on the Accounting Scholars Leadership Workshop, another successful program funded by the AICPA Foundation. In 2013 the AICPA partnered with the Alabama and Ohio State Societies to successfully pilot a regional approach to the workshops, enabling more than 90 students to participate, 14 of whom were also AICPA legacy scholars. The plan for 2014 is to hold four regional workshops with 50 to 60 students in each workshop, which will be led by Kim Drumgo and Neisha Fredericks of the AICPA Diversity and Inclusion Team. He reviewed the scholarship programs funded historically by the AICPA (the Minority Accounting Students Scholarship, and the John L. Carey Scholarships), as well as the Two-Year Transfer Scholarship program that will be funded in the 2014-2015 school year, awarding scholarships to community college students transferring to four-year institutions. Scholarships totaling just under \$350,000 were awarded for the 2013 and 2014 school year.

Mr. Fletchall then recognized two Legacy Scholars, Nicole Wolf and Jessica Woo, and then talked about the Legacy Scholars program, a program funded by the AICPA Foundation, which provides students with support and resources to succeed throughout college and beyond. He noted that the AICPA Foundation was unable to fund 71 percent of the eligible minority scholarship applicants.

He closed by asking the members to contribute to the AICPA Foundation so it can continue to expand its scholarship and workshop programs, and to continue providing opportunities for underrepresented minorities.

### **Update from CPA2Biz/Technology and the Evolving Firm**

Erik Asgeirsson, Chief Executive Officer – CPA2Biz, gave an update on CPA2Biz operations. He noted the significant expansion of their offerings since the early days, and the technology drivers that are impacting the profession, e.g., mobile, cloud computing, digital presence, and information security. He further noted that C2B is putting a lot of resources into change management, the learning strategy for firms, to help them navigate this change. He reported that small business accounting has moved to the Cloud and that many CPA firms are using web-based accounting packages and moving their email to the Cloud. He provided examples of businesses that are moving to Cloud-based solutions, such as Intuit, Paychex, and Intacct. He also noted some key drivers of the movement to the Cloud are collaboration, business intelligence, anytime-anywhere access, scalable, more efficient, and simplified IT infrastructure. He noted the three things driving firm adoption of the digital age are technology strategy, talent and change management, with change management and talent being the most significant challenges.

He gave an update on the CPA2Biz Navigator (the learning management system launched in 2011), which is fueling the shift from traditional to an online learning mindset. He also reported that C2B has been aggressively working on winning .CPA, the new top-level domain released by ICANN (the Internet Corporation for Assigned Names and Numbers), with the hope of launching in the fall of 2014. He also reported the launch of version 2.0 of Digital CPA this fall.

He concluded by reporting that C2B has continued growth and profitability, with revenues of \$24.1 million last year and a net income of \$1.2 million.

The first session of the AICPA Fall 2013 Meeting of Council adjourned at 5:22 pm on Sunday, October 20, 2013.

### **MONDAY, OCTOBER 21, 2013**

### **Welcome and Opening Remarks by the Chairman of the Board**

Richard Caturano welcomed members and guests and then outlined the agenda for the meeting.

### **Presentation of the AICPA Medal of Honor**

Richard Caturano presented the AICPA Medal of Honor to Senator Robert “Bob” Graham. This award recognizes an individual who is not a CPA but whose work has had a significant impact on the CPA profession.

Senator Graham accepted the award and thanked the members for their contributions to the profession.

### **Professional Issues Update**

Barry Melancon, President and CEO, began by thanking Richard Caturano for all his hard work during the past year on behalf of the profession, followed by a video presentation.

He highlighted the issue of municipal advisors, stating that in September 2013 the Securities and Exchange Commission (SEC) issued a rule that exempted CPAs from the registration process as it relates to preparing financial audit and attest services to municipalities.

He then provided an update on the progress of mandatory firm rotation and the possibility of enacting a rule in the U.S. that would mandate firm rotation for public company auditors in the U.S. He reported that the largest step forward on this issue took place in Europe, where a significant number of the European Union (EU) member states agreed on a proposal to bring it forward for a vote to the EU Parliament. There are several components, the first of which is for systemically risky-type entities, where the Parliament will debate a piece of legislation that will require mandatory firm rotation at 15 years, which can be raised to 20 years in a dual audit process. The second component relates to public interest entities, where mandatory rotation rules would be 20 and 25 years under dual auditing. Another element in the European proposal would include a recommendation that the Parliament pass legislation to prohibit or limit non-audit services by CPA firms if the fees associated with those services exceed 70 percent of the audit fee.

Mr. Melancon then reported on the Department of Labor and the risk of a proposed fiduciary rule relating to Employee Stock Ownership Plans (ESOP), and the Department of Labor’s concern about the quality of the appraisals and valuations. He also noted that there are two pieces of legislation pending in Congress that would block this rule from going forward.

He then gave an update on the growing situation of patent holding companies demanding licensing agreements from smaller accounting, engineering, and architectural firms for the scan-to-email function tied to copying and scanning machines. He noted there are five pieces of legislation pending in Congress to address this issue. He further noted that the White House has spoken on the issue, and has raised the possibility of having some type of “loser-pays” provision.

He then provided a brief update about Section 404(b), which is the attestation on management assertion on internal controls required by Sarbanes-Oxley. He noted that the original criticism concerning

Sarbanes-Oxley has dampened significantly as the standards have changed. He reported that as part of the Jobs Bill, a provision was put in place that exempted companies under \$75 million of market cap from that provision. He noted there is a bill pending that would raise that threshold to \$250 million.

Mr. Melancon then turned to the issue of how the financial reporting process should evolve as it relates to regulating broker-dealers. He noted that public interest is most at risk where monies are actually held by a broker-dealer on behalf of the public. Legislation was passed that gave the Public Company Accounting Oversight Board (PCAOB) the authority over broker-dealers to include in the process. The PCAOB has recently performed a pilot program, and has engaged the SEC in the issue. He noted that the pilot program did not produce good results. The SEC has adopted a recommendation that all broker dealer audits would be part of the audit by a PCAOB registered firm requirement under the standards for public companies.

Mr. Melancon mentioned that should immigration reform move forward, it is the AICPA's position that the definition of STEM (Science, Technology, Engineering and Mathematics), which is part of our immigration policy (specifically the 'M' which stands for mathematics), be more broadly defined to encompass accounting.

He then gave an update on the Mobile Workforce issue, a bill, which if enacted, would provide a uniform national standard that indicates that if you work in another state from your home state for less than 30 days, you are not subject to income tax in that state.

Next, Mr. Melancon acknowledged the retirement of Ted Flynn, CEO of the Massachusetts Society of CPAs, who has been with the Society for 43 years, with 39 years as the Chief Executive.

Mr. Melancon then briefly discussed the issue of tax reform, and the effect on the 2014 tax season, including the extenders that expire at the end of the year, such as energy credits and provisions for disasters.

He then discussed the Supreme Court's decision on the Defense of Marriage Act (DOMA), and the federal and state tax implications, as well as Social Security and retirement planning implications. He noted that the federal government still hasn't resolved all of the guidance that is necessary.

He briefly touched on the Affordable Care Act and the uncertainty as it relates to tax issues. He talked about additional resources and points of contact to assist members in implementation as the provisions phase begins in 2014 through 2018.

Mr. Melancon then gave a report on tax reform as it relates to cash-to-accrual basis. While there is no piece of legislation yet, U.S. Congressman David Camp (R-MI), Chairman of the House Ways and Means Committee, is working on a broad outline of what a tax reform bill might look like. He noted that Congressman Camp is a proponent of the elimination of cash basis taxation for personal service corporations, and eliminating it for pass-through entities, raising the threshold of the exemption from \$5 million to \$10 million, and above \$10 million, a firm would no longer have the ability to report on a cash

basis. The number of years of phase in would have an impact on tax liability. He encouraged members to contact their representatives in Congress, particularly if they have a connection to House Ways and Means Committee members, to try to effect what ultimately gets offered in the bill. He noted that this is a very important issue for the profession.

He then gave a brief overview of the Financial Reporting Framework for Small and Medium-Sized Entities (FRF for SMEs) and the tremendous progress and momentum that is building in the marketplace acceptance of FRF for SMEs. He provided some examples of firms focusing on FRF for SMEs on their websites.

Mr. Melancon then gave a report on the Private Company Council (PCC), indicating that integrated reporting and sustainability are gaining momentum. He noted that the International Integrated Reporting Council will adopt a framework for integrated reporting in early December 2013, which is the result of the pilot programs of about 200 companies around the world. He noted further that progress is less in the U.S. compared to other places in the world.

He then gave an update on XBRL (eXtensible Business Reporting Language). He noted that iXBRL (Inline eXtensible Business Reporting Language) is the next generation of XBRL tools as it relates to filing with the SEC, and that public companies are now required to use XBRL for their filings.

He then gave a brief overview of the FASB (Financial Accounting Standards Board) and IAASB (International Auditing and Assurance Standards Board) convergence, and the new lease accounting standards which is now in its second exposure. He noted that more than 500 comment letters have been received by the FASB against the lease standard (including a letter of comment just issued by the AICPA's Financial Reporting Executive Committee).

Mr. Melancon then gave an update on the definition of attest, including the changes that were approved at the Spring Council Meeting. He noted that the AICPA is working closely on this issue with NASBA.

He then briefly touched on the issue of Firm Mobility, noting that there is an exposure draft by both the AICPA and NASBA. He noted further that the period for comment extends into January 2014.

Mr. Melancon then gave a report on the Accounting and Review Services Committee's new accounting compilation standard exposure draft which is out for comment. The exposure draft deals with technical issues regarding independence and the definition of attest. He noted that it provides the reporting entity an opportunity to tell why they are or aren't independent in the basic compilation report of an audit.

He then discussed SSARS 8 (Statement on Standards for Accounting and Review Services), an engagement-based approach reflective of shared information and data in cloud computing under the SSARS portfolio. He noted that management has a responsibility to put a legend on the financial statement saying that no attestation has been provided, and to document that understanding in a written engagement letter.

Mr. Melancon updated the members on CGMA, reporting that there are currently 40,511 CGMAs. Collective with CIMA today, CGMA is the largest collection of management accounting professionals in the world with more than 140,000 members. He noted that through the joint venture, there are Global Management Accounting Principles in process, which will assist CFOs and financial professionals with benchmarking and best practices. He also reported on a re-work of the CIMA syllabus, which is the baseline of the competency model to obtain the CGMA. He noted that beginning in January 2015, the top level exam that a CPA in the U.S. would take to demonstrate sufficient experience will be called the CGMA Capstone Exam. He also mentioned a thought leadership paper on big data that was just released which has implications for the future of the management accounting function. He announced that in the first quarter of 2014, the next CIMA series of thought leadership papers on employability will be released. He also reported on a seminar that was conducted recently in the U.S. which focused on the issues that Tomorrow's Company has to deal with from a business and financial reporting perspective. He noted that guidance as to what CPAs can and cannot do in the area of tax returns has been published on AICPA's website.

He then reported on a development involving the Equal Employment Opportunity Commission (EEOC), where the EEOC is challenging certain CPA firms as to provisions in their partnership agreement. He tied it to issues such as mandatory rotation and noted that it is an indication of regulatory expansion, and that AICPA is working diligently to make a case against it.

He then recapped some information from the last meeting about peer review of the future, and the fact that it is a transformative process of financial information and reporting. He noted that the feedback from the breakout sessions in May 2013 have now been embedded into a second working group focusing on peer review for the next generation.

Mr. Melancon then reported that merger and acquisition (M&A) activity is on the rise, and continues to be at record numbers. He noted that 43 mergers were in the top 500 firms, and of those, 24 firms were acquiring practices in top 100 firms, with much of the activity being driven by demographics.

He then recognized the upcoming retirement of Jim Metzler, Vice President of Small Firm Interests at AICPA, and provided a brief background of Mr. Metzler's activities and accomplishments during his years at the AICPA.

He then turned to the subject of education and reported two record numbers from the 2013 AICPA Trends Report: (1) the highest number of accounting graduates ever, and (2) the highest number of new CPA firm hires ever, based on recorded data dating back to 1970. He noted that the CPA credential is in good stead from a hiring perspective, and that the Bureau of Labor Statistics expects a 16 percent growth rate in accounting and auditing jobs from 2010 to 2020. He also noted a recent Robert Half survey in the Wall Street Journal which reported that the CPA designation is an employers' most desired credential. He

further noted that the number of CFOs who are CPAs has increased from 25 percent in 2006 to 38 percent in 2013.

Mr. Melancon then gave an update on the Pathways Commission, a joint project of the AICPA and the American Accounting Association (AAA), which made a series of seven recommendations, one of which was Diversity, and another was working towards the goal of high school accounting being an advanced placement course. He noted that it will take a grassroots effort, including political work with the College Board (the body that determines which courses are considered advanced placement), to get it approved.

He then recognized the upcoming retirement of Jeannie Patton, VP – Academics, Professional Pathways & Inclusion at AICPA, and provided a brief background of Ms. Patton's activities and accomplishments during her years at the AICPA.

He then gave an update on the CPA Exam, noting that after a decade since beginning computer-based testing, the AICPA just delivered its two millionth section of the computerized Exam. He noted that the delivery of the computerized Exam is a positive working partnership between the AICPA, the National Association of State Boards of Accountancy (NASBA) and Prometric, and by extension, the State Boards. He also noted on the international front, that the CPA Exam is now being offered in Brazil, in which citizens of any country of South America can take the Exam in Brazil. He further noted that the CPA Exam is offered in the Middle East and in Japan.

He reported that the Institute of Chartered Accountants in New Zealand and Australia are in the midst of a cross-country merger. He also reported that in early October 2013, the three accountancy bodies of Canada -- CA Canada, CMA Canada and CGA Canada, have all merged to become CPA Canada, and that as a result, "CPA" will be the designation used by every newly qualified accountant in Canada beginning January 1, 2014.

Mr. Melancon then provided an update on a pilot program between CPA Canada and Chartered Institute of Management Accountants (CIMA) in which they will be offering AICPA specialty credentials across the border – ABV, CFF, CITP, PFS, with the expectation of launching in early 2014.

He then reported in the technology area, that the SOC (Statement on Controls) II report was associated with the launch of the Windows Zero Project, the most significant piece of software to contain this new type of attestation associated with it. He reported that an agreement was reached with Cloud Security Alliance in which they are endorsing the AICPA's SOC standards as the de facto definition for use in cloud offerings and cloud delivery to the marketplace.

He then highlighted the challenges that will need to be addressed as cloud computing drives changes, such as authentication in financial reporting, and what data integrity capabilities can be produced to increase reliability.

Mr. Melancon then reported on data consistency in audit, stating that the first three standards have been finalized, which will allow members to access, manipulate, and analyze data from an audit assurance

perspective. He provided, as an example, Hewlett Packard's pilot program on cut data related to the audit gathering process.

He then discussed the changes in the aicpa.org homepage, noting the new design and additional activity in the mobile area.

He then highlighted the area of competition in the learning space, as well as other areas related to the learning environment. He cited for example Lime, a two-year old social media entity in Asia with 230 million users, which is challenging Google and Facebook.

Mr. Melancon reminded the members that they remain a party to the government transformation initiative, a low key effort to get Congress to pass legislation which has been introduced in both the House and the Senate.

He noted that the "What's at Stake" video has been getting a lot of play and has been in the hands of everyone on Capitol Hill. He encouraged the members to continue to show it, particularly in committee meetings and civic organizations.

He then reported that 360 Degrees of Financial Literacy, the AICPA's financial literacy program, will have its 10-year anniversary in May 2014. He noted that it is the number one Ad Council campaign in the form of donated (free) media. He then showed a video of the new ads that will be part of the campaign which will be rolled out in November 2013.

Mr. Melancon concluded this session by commenting on the positive and exciting time this profession faces and by showing the video "The New Normal" by Futurist, David Pearce Snyder.

### **Update from the Private Company Council**

Billy Atkinson, Chairman of the AICPA Private Company Council (PCC), began with an update on the PCC activities to date, stating they have held five meetings over the past year, and another five meetings are scheduled for next year, all attended by FASB. He reported that the protocols established by the Financial Accounting Foundation (FAF) are all working well. He further reported on some of the issues the PCC is dealing with, such as a proposed standard that would deal with the cost and complexity of estimating fair value of assets, recognizing intangibles separately from goodwill in a business combination, testing for impairment only upon occurrence of a triggering event (with the impairment test being the biggest change), VIE (Variable Interest Entity) Guidance to Common Control Leasing, and interest rate swaps and their impact on the balance sheet and other income sheets. He noted some future items the PCC will be examining, such as stock-based compensation, disclosures for private companies, and looking at the next phase of what they will consider related to Variable Interest Entity. The PCC will be seeking input from members as they move into the next round of issues.

## **Report on Finance and Operations**

Tommye Barie, Chair of the Finance Committee and Anthony Pugliese, Senior Vice President & Chief Operating Officer, gave a report on the key financial activities during fiscal year 2013, including membership, the CPA exam, the performance of AICPA's investments, pension plan, long-term debt and also provided an update on the AICPA's fiscal 2014 cash flow projection.

Ms. Barie noted that overall the AICPA had a successful year, generating an operating profit of approximately \$7 million. When combined with investment and pension gains, the fund balance increased by more than \$33 million.

Mr. Pugliese provided an overview of membership results and other operational and financial highlights during the year. He noted that membership again reached record-breaking levels, ending fiscal year 2013 with over 394,000 total members, representing an increase of 34,000 members since 2009, and representing a retention rate exceeding 95 percent, the highest rate on record, and one of the highest in the association industry. At year end, there were more than 362,000 voting members, an increase of 19,000 over the same period. He further reported that \$93 million in membership revenue was generated in fiscal 2013, which was approximately \$4 million higher than the previous year. There were nearly 41,000 CGMAs, which was approximately 5,000 over projection. He noted continued growth in member specialization and credentialing disciplines, reporting there were over 47,000 AICPA members who were section members, of which 15,000 had a credential other than CGMA.

Mr. Pugliese reported that the Personal Financial Planning (PFP) Executive Committee was granted standard setting authority and recently issued an exposure draft on standards and personal financial planning services for public comment. He reported further the expansion of credentials internationally, and the partnering with CPA Canada to offer AICPA credentials to their members beginning in January 2014. He referred to a partnership agreement with State Societies covering the ABV, CFF, CITP and PFS credentials.

Mr. Pugliese then reported on the projection of the domestic CPA Exam operations through 2024, the term of the tri-party break-even agreement with NASBA and Prometric. He reported that the domestic exam had another successful year, generating receipts in excess of expenditures of \$5 million, increasing the deferred liability balance to nearly \$11 million as of July 31, which will be fully utilized by 2024. He noted that through 2024, the AICPA's portion of the total fee is not expected to increase above its current level, and reminded the members that the AICPA's portion of the fee dropped from \$95 to \$90 per section in January 2013.

Mr. Pugliese reminded the members that the international exam continues to be delivered in Bahrain, Brazil, Japan, Kuwait, Lebanon and the United Arab Emirates. Beginning in July 2013, testing in Brazil was expanded to include qualified citizens and permanent residents of all South American countries, with NASBA collaboration to expand to others. He reported that in fiscal 2013, 11,000 sections of the

international exam were delivered (which is an increase of 60% over last year), recognizing a revenue of approximately \$3.8 million and a profit of \$2.0 million.

Mr. Pugliese then provided an update on the performance of AICPA's investments, noting that it has performed in line with its benchmark. At year end, there was a balance of over \$112 million, and as of Friday, October 18, 2013, had reached \$116.4 million.

Mr. Pugliese then gave an update on the AICPA pension plan. He noted a one-time benefit of \$4.7 million as a result of the acceleration of the pension plan freeze from April 2017 to June 2013 and a lump sum campaign to the plan's term vested participants. The effect of the accelerated plan freeze, combined with a rise in the plan's discount rate of 80 basis points and higher plan assets, reduced the AICPA's pension plan liability by 46 percent, or more than \$21 million. He reported that as a result of the lump sum campaign, which began in August 2013 and concluded at the end of September 2013, over 50 percent of the term vested population (or more than 300 former AICPA employees) elected to receive the payment, totaling \$15 million. The payments will be distributed through pension plan assets in November 2013 and will eliminate 12 percent of the plan's liability, which will no longer be subject to market volatility. He noted that management and the Investment Committee continue to monitor the plan's assets and liabilities to further mitigate volatility.

Mr. Pugliese then reported a debt balance of \$13.8 million at year end, and that \$5 million was repaid during fiscal 2013. He noted that the debt will be repaid by April 2016. He noted further that since the relocation to Durham in 2006, more than \$74 million in long-term debt has been repaid.

Mr. Pugliese highlighted some of the operational activities that have occurred over the past year and are still occurring, such as the Task Force on the Future of Learning (focusing on facilitating a shared vision across the profession on how to address learning), leveraging Horizons 2025 to advance AICPA's digital strategy, and the reorganization and expansion of Member Learning & Competency by enhancing the content available in the AICPA Learning Management System (Navigator), to name a few.

Mr. Pugliese reported on the launch of the new XBRL, US GAAP and Forensic Accounting certificate programs (online self-study offerings which help members build and demonstrate their competencies). He reported they plan to increase the number of certificate program offerings during this fiscal year.

He also reported on the AICPA's expanded virtual conferences in fiscal 2013, which allows members to attend live conferences remotely, or view post-conference re-broadcasts featuring select content.

Ms. Barie then provided the following financial highlights: At July 31, 2013, the total assets were \$197 million compared to \$176 million last year. The variance is due to higher cash and cash equivalents from an increase in advanced dues as a result of a larger membership base and higher investments. At July 31, 2013, total liabilities were \$171 million compared to \$183 million last year. The four major variances include a lower pension liability and lower long-term debt, offset by an increase in advanced dues

and an increase in the CPA Exam deferred liability. She reported that the fund balance increased by more than \$33 million as a result of operating income of almost \$7 million, pension gains of \$14 million, and investment gains of \$13 million.

Ms. Barie further reported the following significant budget-to-actual variances from operating income: lower net operating revenue of \$12.4 million resulting from lower margin on CPE and publications due to lower demand for certain products; and lower margin on conferences due to lower participant demand than anticipated. To offset the net operating revenue decline, management reduced operating expenses by approximately \$18 million in select areas without impacting member services or delivery of products.

Ms. Barie then reported that at July 31<sup>st</sup>, 2013, the Institute's combined assets were \$238 million as compared to \$227 million last year, and combined liabilities were \$176 million compared to \$188 million last year. She noted the total increase in preferred stock and net assets was \$23.8 million in 2013 as a result of the investment and pension gains. On a combined basis, the total revenue was \$225 million and total expenses were \$216 million, a decrease of \$34 million attributable to the pension gain and offset by increases in program expenses. The AICPA's Board of Directors unanimously approved the audited financial statements in September.

The financial statements are at **Appendix B** in the official minutes of the AICPA.

### **Update from the National Association of State Boards of Accountancy (NASBA)**

Galen Hansen, Chairman of the National Association of State Boards of Accountancy (NASBA), provided a brief update on NASBA's recent activities. Mr. Hansen noted that the AICPA and NASBA has a very strong relationship, and the two organizations are very close to amending the Uniform CPA contract. He reminded the members that NASBA was engaged with the AICPA in the formation of the Private Company Council (PCC), and that the PCC has been charged with addressing the complexity and relevance of GAAP to make it more user friendly for private companies. He noted, however, that NASBA does not endorse the GAAP-based framework because NASBA is charged with enforcing authoritative standards, and the framework is presented as non-authoritative guidance. He noted further that NASBA has observed the highest ethical values, and has been vigilant in protecting and preserving the public interest.

### **Future of Learning**

Lawson Carmichael, Senior Vice President – Strategy, People and Innovation, provided an overview of the activities of the new Future of Learning Task Force. He reported on the changing external landscape, how these changes are impacting the profession, and how the profession is addressing the future of learning. He noted that with college tuition rising faster than inflation, and student debt in 2012 surpassing

\$1 trillion, universities are re-thinking their financial model and continuing to look for new sources of revenue. He noted further that certificate programs (with some universities offering badges to indicate level of achievement) are one of the fastest growing forms of post-secondary education. He further noted there is a renewed emphasis on life-long learning, such as non-formal learning, on-demand learning, and nano (smaller, “bite-sized”) learning modules. He discussed the different professional expectations of the Millennial generation from the Gen X and Baby Boomer generations. He noted that competency-based learning (leadership, communications, strategy analysis, business acumen, practice development, people development), in addition to technical skills, is critically important. While the traditional classroom model is not dead, blended learning – classroom + e-learning + multimedia – is improving outcomes in learning. He noted that mobile learning is growing faster than E-learning, and is forecasted to grow approximately 31 percent through 2020 (includes smartphones and tablets, not just PCs).

Another trend Mr. Carmichael discussed was the popularity of gamification (the application of game mechanics, game thinking or gaming structures in a context that would otherwise have no gaming elements) to increase performance. He noted some examples of gamification are Open Table and LinkedIn.

Anthony Pugliese, Senior Vice President & Chief Operating Officer, continued the overview of the Future of Learning, by noting that all generations are beginning to use online learning, and in fact, many are actually beginning to prefer the different learning techniques that are available. He noted as the work of CPAs is becoming more complex, there is a greater need for learning faster in real time. He noted further that even tradition classroom-style formats are also undergoing a massive evolution. He briefly touched on MOOC (Massive Open Online Course) which is education that allows unlimited participation and viewing, and provides interactive user forums for people from around the world to communicate, and participate in SPOCs (Small Private Online Courses). These approaches to instruction sometimes use “graphic novels” instead of traditional textbooks to get difficult concepts across to students. Lectures are assigned as homework, freeing instructors to spend class time more productively. He demonstrated how SPOCs could be used in the corporate environment, tailoring complex subject matters across different skill levels or levels of understanding. He noted further that sustainable revenue models are the challenge. He also spoke briefly about the concept of the Flipped Learning classroom involving blended learning that is gaining prominence and changing expectations for learning. He reported further that a white paper on Flipped Learning will be completed by summer 2014.

### **Open Forum**

The Chairman invited questions and comments from members of Council and guests. A member from Texas asked Mr. Melancon about the advisory group recommendation for PCAOB to name firms in

their deficient inspection reports. Mr. Melancon responded that it would take legislation to change the current rules, and Congress has been unwilling to introduce legislation that would change those rules.

### **Update from the Tax Executive Committee**

Jeffrey Porter, Chairman of the Tax Executive Committee, provided an update on the activities of the Tax Executive Committee and the Tax Section. Mr. Porter reported that the Tax Section currently has 26,000 members, of which 19,000 pay an extra subscription fee to receive *The Tax Adviser*. There are 15 committees and technical resource panels, numerous task forces, and 200 Tax Division volunteers that are appointed, as well as a strong leadership core. He provided some examples of the practice support tools they provide to members, such as E-Alerts, a monthly Tax Power Hour covering practice management issues, a Washington Tax Brief, blogs on tax issues, guidance on utilization of social media, checklists, practice guides, and other tools & aids. He explained that while the Tax Executive Committee sets the standards for tax services, they are not the enforcement body for those standards, but instead provide support and expertise to the Professional Ethics Division. He briefly highlighted some of the key tax policy advocacy efforts in the areas of thought leadership (tax policy concept statements and white papers), legislation and process (House Ways & Means, Senate Finance), and regulation and administration (IRS, Treasury, Government Accountability Office (GAO) IRS, and Oversight Board). He noted they regularly have over 130 advocacy projects going on at any given time.

Mr. Porter then provided an overview of the Tax Division's extensive involvement with tax reform, and identified some of the drivers both for and against reform (e.g., fiscal cliff, sequester battle, government shutdown over budget, debt ceiling deadline). He pointed out that any reform will have to be completed by the summer of 2014 because of the upcoming elections in November 2014. He highlighted some of the Guiding Principles of Good Tax Policy which they use to help create a simplified, more workable tax code.

### **Financial Reporting Framework for Small and Medium-Sized Entities**

David Morgan, Chairman - Financial Reporting Framework for Small and Medium-Sized Entities (FRF for SMEs) provided a progress report on the AICPA's efforts with regard to the small and medium size entity reporting framework (he noted this is a non-GAAP framework). He reported that the Framework rolled out on June 10, 2013, and as of September 2013, there were 20,000 downloads from the website, and 8 million impressions on media outreach. He further reported there have been CPE courses, self- and group-study courses, four webcasts, as well as a flash drive which was distributed in the Council packets. He provided an overview of the tool kit they developed to guide the choice of an accounting framework, stating it is segmented by firm size and contains client-facing resources, as well as resources for internal use (e.g., Power Point presentations, social media information, plain English guide). He noted the flash drive contains a tool kit for financial statement users, as well as a tool kit for small businesses. State

Societies have been very helpful in the rollout, putting the resources out to make members, as well as lenders and business organizations, aware of the new framework. He reported on an ad campaign that started at the rollout in June 2013 and ran through August 2013, focused on small businesses and users of financial statements. He noted there were 17,500,000 impressions, mostly from web and print ads and organizations' social media, as well as emails to users. He reported that phase 2 of the ad campaign launches today, focusing on small businesses and users. He then reported on ongoing additional activities, and asked for feedback as members are implementing the framework.

### **Firms of the Future Panel**

Susan Coffee, Senior Vice President – Public Practice & Global Alliances, moderated a panel that included Jason Deshayes, Vice President – Butler and Company; Tracey Golden, Partner – Deloitte & Touche LLP; Lexy Kessler, Partner – Aronson LLC; Trisha Nomura, Partner – PKF Pacific Hawaii LLP. They each discussed issues that are important to their respective clients. They also discussed future client needs and how each of their respective firms are preparing for the future.

### **Guest Speaker on Future of Learning**

Sal Khan, Founder of the Khan Academy (a non-profit with the mission of providing free, high-quality education to anyone, anywhere in the world) provided an overview on the Khan Academy. He noted that Khan Academy is historically known for its collection of videos that he started making for his cousins in 2004, but that currently videos are just a small part of what Khan Academy is (today they are a team of 50 people, and their staff is growing). He touched on some recently updated statistics: they have had 10 million unique users, over one billion exercises have been done on the site, and it's been used in 30,000 classrooms. He provided some background information on how the Khan Academy started (it began as a software tool), has grown to a series of videos posted on his YouTube channel, and was set up as a not-for-profit in 2007. He reported on how he got his first significant donation (\$100,000), then meeting Bill Gates, and as a result, in 2010 Khan Academy became a "real" organization. He noted that the core of the website is math videos, but there is much more than math. He explained that the model on the site is that students do exercises (for instance in Arithmetic), and once they are able to show proficiencies, then it will move them along to more advanced topics. He announced that in the next few weeks they will be launching what they are calling a grade level mission. He reported that there are 46 states aligning around a core set of standards, and that Khan Academy is mapping to those standards, and working with education experts to make sure it is all properly aligned. He noted that with Khan Academy, every student can learn at their own pace, and class time should be all about human interaction, people talking to each other and tutoring each other. They just recently launched a Khan Academy in Spanish, to be followed by Portuguese in the next few months, then French.

The Monday session of Council adjourned at 4:27 p.m. on Monday, October 21, 2013.

## **TUESDAY, OCTOBER 22, 2013**

### **AICPA ANNUAL MEMBERS' MEETING**

#### **Welcome and Opening Remarks by the Chairman of the Board**

Richard Caturano began the meeting with a reflection of his past year as Chairman of AICPA, and an overview of the agenda for the day.

#### **Report on Breakout Sessions**

Tommye Barie, AICPA Vice Chair Nominee, summarized the breakout session discussions on Monday. Regarding the Future of Learning session, Ms. Barie reported on the gaps in learning needs versus the current methods of delivery. She noted that the AICPA is looking for more ways to get participants more engaged. One suggestion was stepping outside the box and learning new areas, building new competencies and soft skills. She further noted that levels of delivery, whether through the web or group study, need to be different for each of the age groups (Baby Boomers, GenXers, Millennials).

Ms. Barie then reported on the session on Changing Environment for Firms – Opportunities and Challenges, noting the different criteria for what a relevant firm would look like in 2020 -- the people (more diverse, flexible), client service (more focused on the core services, audit and tax, expanding into consulting and advisory services), and the firm model (greater specialty focus).

Finally, Ms. Barie reported on the session on Implications of Tax Reform for Business and Clients. She noted that some of the issues discussed were: comparison of the upcoming tax season, implementing the Affordable Health Care Act and the new Medicare tax, mitigating the impact of identity theft involving clients, and tax reform quick fixes to make the system more efficient.

#### **Presentation of the AICPA Public Service Award for Individuals**

Steve Wimmers, Member of the Awards Committee announced that Susan Whitelaw of Louisiana was the winner of the AICPA Public Service Award for Individuals. Ms. Whitelaw accepted the award with gratitude and thanked the AICPA, as well as all the groups with which she has been privileged to serve throughout her career. He also presented the Sustained Contribution Award recognizing members of the Institute who have contributed measurably to the AICPA and the CPA profession through their volunteer service.

### **Report on CGMA**

Arleen Thomas, Senior Vice President – Management Accounting & Global Markets, began with a quick review of the past year. She noted that nearly 41,000 CPAs expressed a desire to become a CGMA, with over 130,000 CGMA designees spanning 173 countries, working for 91 of the Fortune 100 companies. She noted further that 95 of the world's top 100 brands employ CGMA designation holders, and 75 percent of AICPA CGMA designation holders also belong to a state CPA Society. Ms. Thomas then reported on other CGMA demographics – over 45 percent of CGMAs are between the ages of 41 and 54, 68 percent are male, 32 percent are female, 6 percent work in government, 13 percent work in the advisory capacity in public accounting, and the super majority work in business and industry. She noted that the first chapter was the launch and the grandfathering period. In the second chapter, the management accounting professional will become a CGMA after they have passed an exam, completed experience requirements, and have made a commitment to life-long learning. Ms. Thomas then highlighted the competency framework, which consists of four categories: technical or core skills, people skills, business acumen, and leadership. She noted the work flows that take a student or a U.S. CPA through to becoming a CGMA in 2015. She reported that starting in 2015, the exams will be known as the CGMA Capstone Exam. Ms. Thomas reported on the changes that CIMA is making to the content and delivery of the CGMA Exam, noting that CIMA will now start to test analytics, big data, and shared service centers, as well as moving to a computer-based environment.

Ms. Thomas then reported on the Harvard Manage Mentor tool which was launched in June 2013 on the CGMA.org website as a member benefit to CGMA designees. Forty-four critical management skills are included in the online product, focused on global collaboration, strategic planning, negotiations, difficult interaction, and managing upward. She noted it is the number one resource on cgma.org that CGMA designees are using.

Ms. Thomas concluded the session by highlighting some other valuable resources that were put into the market during the summer of 2013, such as a report on building resilient business models, the essential tools compendium, the Big Data Report, and a web page with Employer Resources (about CGMA, as well as having a CGMA as part of their finance team).

### **Report from the Audit Committee**

Nancy Bagranoff, Member of the Audit Committee, announced that the financial statements had been reviewed jointly and accepted by both the AICPA Audit and Finance Committees, as well as the Board of Directors. He informed Council that J.H. Cohn, LLP had audited the combined financial statements and had issued an unqualified opinion.

Ms. Bagranoff also noted that JH Cohn, LLP had also been engaged to examine management's assertion regarding internal control. This assertion is included in the Annual Report under the caption "Statement of Management Responsibilities for Financial Statements and Internal Control". The AICPA's assessment of internal control was completed in accordance with the Committee of Sponsoring Organizations' (COSO) criteria.

She stated that as a result, management's evaluation of internal control and the auditor's opinion on management's assertion indicate that the AICPA and related organizations maintained effective internal control over financial reporting and over the safeguarding of assets against unauthorized acquisition.

#### **Motion to Appoint Cohn Reznick, LLP as Auditors**

Upon a motion duly made, seconded and discussed, the members of Council approved the appointment of Cohn Reznick LLP as the independent auditors of the AICPA for the year ended July 31, 2014.

#### **Adjournment of Annual Members' Meeting – Fall Meeting of Council Reconvenes**

#### **Report of the AICPA Nominations Committee**

Gregory Anton, Chair of the Nominations Committee, presented the report of the AICPA Nominations Committee in accordance with the Institute's bylaws. Mr. Anton outlined the nominations process for AICPA Board and Council members. The committee was elected one year ago by the Council at Amelia Island, Florida. He noted that in accordance with the Institute's bylaws, the committee held meetings and subsequently published its report on the AICPA's website in April 2013. He referred to **Item 25** given to Council members, which included nominees for Council Members-at-Large, members of the Joint Trial Board, members of Peer Review Board, and members of the AICPA Board of Directors. Mr. Anton put forth the slate of members nominated as Council Members-at-Large for three-year terms ending in 2016, and one at-large nominee who is being nominated to fill a two-year unexpired term ending in October 2015. Upon a motion duly made and seconded, the members of Council unanimously approved the election of the nominees for Council Members-at-Large.

Mr. Anton put forth the slate of nominees for directly-elected members. A notice of these nominations was placed on the AICPA website and was also listed in **Item 25** given to Council. Upon a motion duly made and seconded, the members of Council unanimously approved the election of the nominees to be directly-elected Council members.

Mr. Anton put forth the slate of nominees for the Joint Trial Board to fill eight vacancies, as well as the reappointment of four members for four additional three-year terms. Upon a motion duly made and

seconded, the members of Council unanimously approved the election of the nominees to the Joint Trial Board.

Mr. Anton put forth the individuals nominated for election to the Peer Review Board. Upon a motion duly made and seconded, the members of Council unanimously approved the election of the nominees to the Peer Review Board.

Mr. Anton put forth the nominations for membership on the AICPA Board of Directors as follows: Stephen Christian, Pennsylvania; Tracey Golden, Connecticut; Eric Hansen, Missouri; DeAnn Hill, Kansas; Senator Blanche Lincoln, Arkansas (Public Member); Dorri McWhorter, Illinois; and David Morgan, Tennessee. Upon a motion duly made and seconded, the members of Council unanimously approved the election of these nominees.

Mr. Anton put forth the nomination of Tommye Barie for the position of Vice Chair of the Board for 2013 and 2014. Upon a motion duly made and seconded, the members of Council unanimously approved her election.

Mr. Anton then put forth the nomination of Bill Balhoff of Louisiana to the position of AICPA Chairman of the Board of Directors for 2013-2014. Upon a motion duly made and seconded, the members of Council unanimously approved his election.

Mr. Caturano then put forth the slate of nominees to serve on the AICPA Nominations Committee for the year 2013-2014. The slate was also contained in **Item 25** of the Council materials. Upon a motion duly made and seconded, the members of Council unanimously approved the election of the Nominations Committee members. The Nominations Committee Report is at **Appendix C** in the official minute records of the AICPA.

The 2013 Fall Meeting of Council was adjourned at 10:40 AM on Tuesday, October 22, 2013.