READY FOR THE NEXT

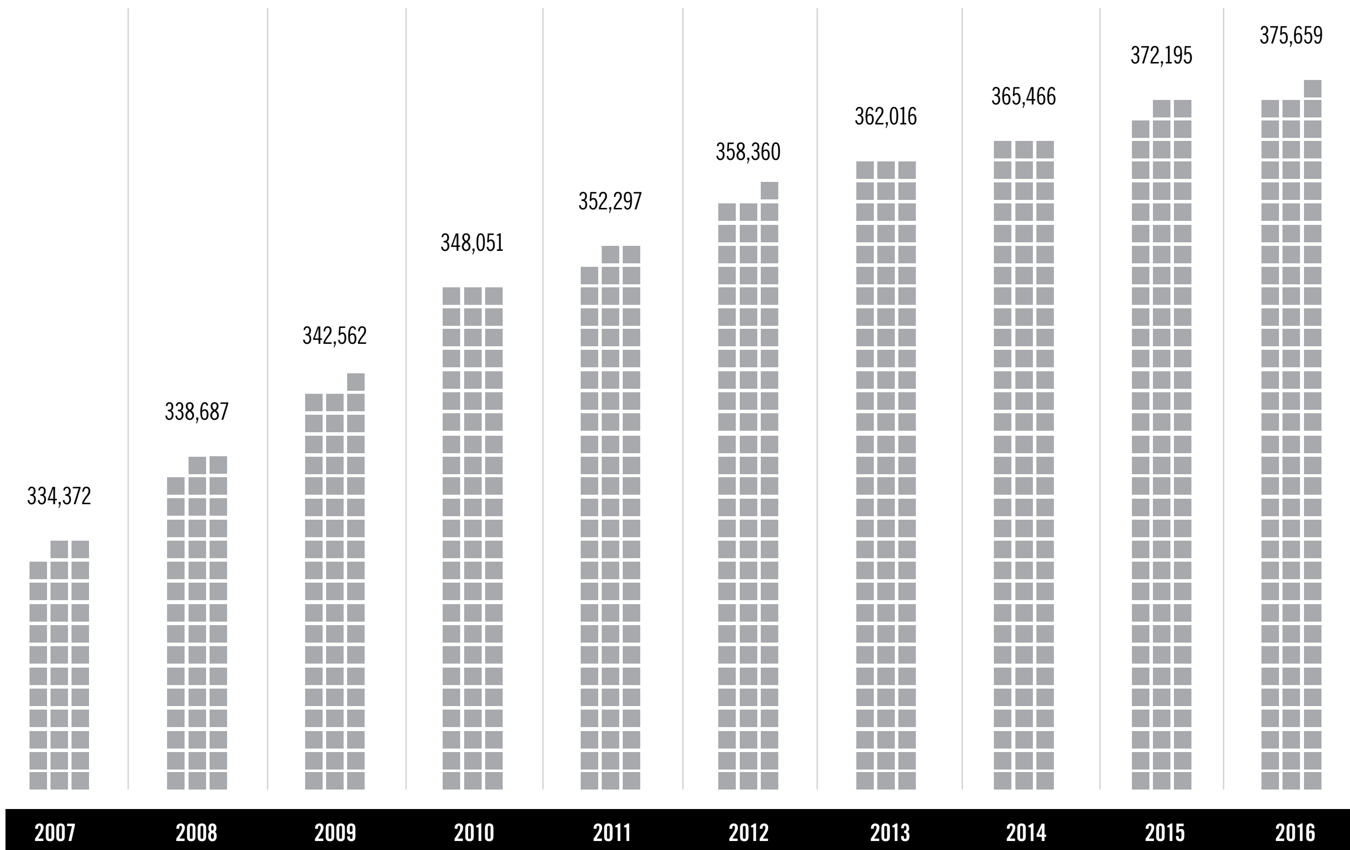
2016 FINANCIALS

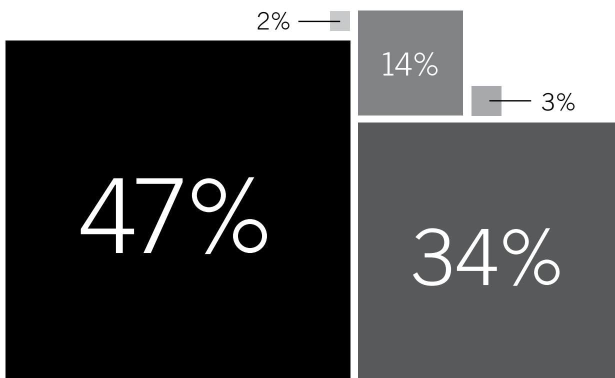
AICPA®

2016 TOTAL AICPA MEMBERSHIP

418,033 MEMBERS

SOURCES AND OCCUPATIONS OF AICPA VOTING MEMBERSHIP SINCE 2007





47%	PUBLIC ACCOUNTING
34%	BUSINESS & INDUSTRY
14%	RETIRED & MISCELLANEOUS
3%	GOVERNMENT
2%	EDUCATION

AICPA MANAGEMENT DISCUSSION AND ANALYSIS — FISCAL 2016

The American Institute of Certified Public Accountants (AICPA or Institute) is proud to represent and serve our members and the accounting profession. The value that we deliver each day is reflected in our high membership renewal rate and continuous growth through new members, resulting in more than 418,000 members in total at the end of our 2016 fiscal year. As demonstrated by our long history of serving the profession, we actively leverage our growth to continually deploy resources and products for the betterment of our members and the accounting community.

Key among the Institute's activities is supporting and advancing CPA core services, such as audit, assurance and tax, as well as specializations such as financial planning, forensics, IT assurance and valuation. Additionally, the AICPA is driven to attract, recruit and retain a diverse and talented pool of CPAs. We strive to proactively identify and deliver the training, certifications and resources needed to maintain our reputation as a trusted and valued profession, vital in today's complex economy.

The AICPA concluded the year with our members overwhelmingly approving the creation of a new international accounting association with our current joint venture partner, The Chartered Institute of Management Accountants (CIMA). We are strategically positioned to move into the future with an even larger, stronger collective voice, enabling us to better serve and support our members.

The following is a summary of key accomplishments achieved during the year, as well as management's report on operations for the fiscal year. This report should be read in conjunction with the audited combined financial statements and notes to the combined financial statements.

AUDIT QUALITY

To help firms raise the level of quality of the services they offer, the AICPA continued to drive forward its Enhancing Audit Quality (EAQ) initiative. The effort considers auditing of private entities through multiple touch points, particularly where quality issues have emerged.

The report, *AICPA Enhancing Audit Quality Initiative, Highlights and Progress 2016*, provides current EAQ initiative status and summarizes the progress the profession has made in the six focus areas of the Institute's *6-Point Plan to Improve Audits*. Regarding the focus area of pre-licensure, we are working to ensure continuous engagement occurs across the pipeline, encouraging students to pursue CPA licensure. The next version of the Uniform CPA Examination, scheduled to launch in April 2017, will increase the focus on higher-order skills such as critical thinking, problem-solving and analytical ability, and will include the assessment of evaluation-level skills in the Audit section. The Auditing Standards Board (ASB) continues to monitor implementation of the Clarified Statements on Auditing Standards and is working to improve the communicative value and relevance of the auditor's report through proposed revisions to generally accepted auditing standards.

The AICPA has instituted reforms directed at enhancing the accountability of firms enrolled in the AICPA Peer Review Program as well as peer reviewers. The Enhanced Oversight Program, initially piloted in 2014 and now a permanent part of the Peer Review Program, identified where peer review could be strengthened, resulting in several changes, particularly regarding issue detection and remediation. To improve compliance with professional standards, peer reviewers are focusing their efforts on the specialized industries and areas of practice where enhanced oversights noted the most issues, including audits of employee benefit plans and single audits, as well as the sufficiency of audit evidence.

The AICPA Professional Ethics Division is collaborating with the National Association of State Boards of Accountancy (NASBA) and the U.S. Department of Labor (DOL) on an initiative that allows the AICPA Ethics Division and the DOL to share investigative files with state boards of accountancy. The Ethics Division is also monitoring publicly available databases to identify potential issues for outreach to firms.

This year, the AICPA established the Assurance Research Advisory Group (ARAG) to help aid the ASB and other standard setters and to bridge the gap between academic research and private company assurance practice. The ARAG is a group of practitioners and academics formed in collaboration with the American Accounting Association (AAA) and will fund academic research on certain topics of interest to the profession. The group requests, reviews and approves academic research proposals to address private company assurance topics of interest to practitioners.

FIRM VISION

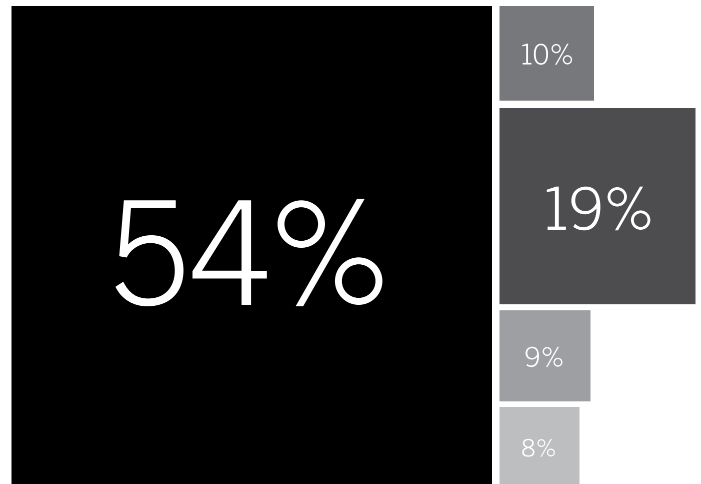
The *CPA Horizons 2025 Report* (Horizons Report) provided a vision of what the future of the profession might look like. In 2016, the AICPA's Private Companies Practice Section (PCPS) gathered a group of millennial practitioners from firms of all sizes to discuss the Horizons Report and determine what firms need to focus on to remain relevant in the future. The group agreed that firm business models must evolve to better align with the services clients will need in the future and with the structures and capabilities employees will demand.

The PCPS Firm inMotion e-Toolkit is an online resource designed to help firms navigate the challenges of preparing for the future. The toolkit guides practitioners through the trends identified in the Horizons 2025 research project, which can help firms evolve their practices. Its downloadable tools provide CPAs with a closer look at successful ideas and practices from innovative, new-era firms. The resources provided facilitate communication within firms, guide firm leaders on creating a shared vision for the future and encourage firms to consider the cultural and business model changes the next generation of CPAs desires.

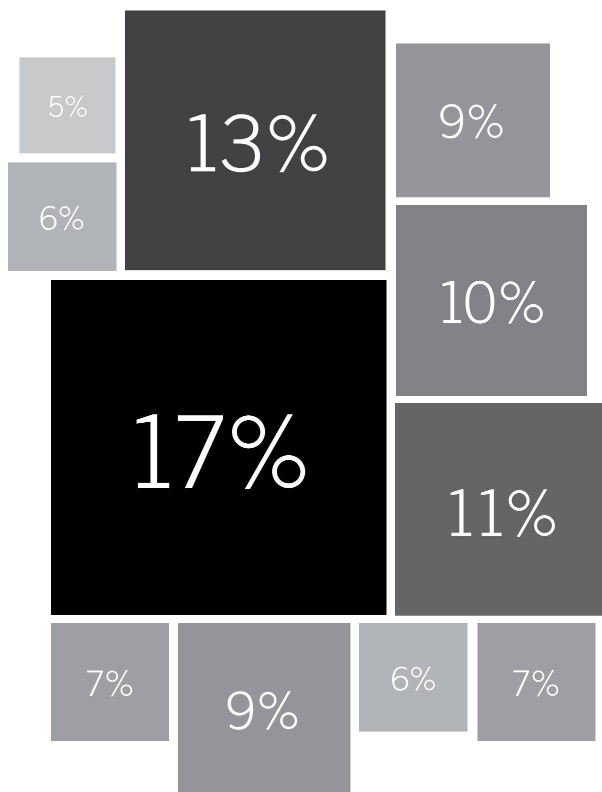
The toolkit addresses an array of topics important to future leaders, including increasing transparency, delivering value-added services, moving beyond time-based billing and adjusting communications to the changing needs of clients. In addition, this toolkit offers guidance and resources to support practitioners in attracting and retaining top talent by addressing topics such as the strategic use of technology, flexible work programs, employee development, career planning and the expectations of a career coach.

OPERATING REVENUE BY ACTIVITY

54%	MEMBERSHIP DUES
19%	PROFESSIONAL DEVELOPMENT & MEMBER SERVICE CONFERENCES
10%	PROFESSIONAL EXAMINATIONS
9%	INVESTMENT AND SUNDRY INCOME
8%	PUBLICATIONS



TOTAL OPERATING EXPENSES



17%	PROFESSIONAL DEVELOPMENT AND MEMBER SERVICE CONFERENCES
13%	REGULATION AND LEGISLATION
11%	TECHNOLOGY
10%	PUBLICATIONS
9%	PROFESSIONAL EXAMINATIONS
9%	GENERAL MANAGEMENT
7%	OTHER
7%	TECHNICAL
6%	COMMUNICATIONS AND PUBLIC RELATIONS
6%	INTERNATIONAL
5%	ORGANIZATION AND MEMBERSHIP DEVELOPMENT

In 2016, PCPS launched a new website, the AICPA Firm Global Connection, which offers some of the tools and resources typically available to U.S. PCPS member firms to the international firm community on a subscription basis. The AICPA PCPS Team is working to partner with firm associations and national accountancy member bodies to offer these one-of-a-kind tools to their members. A future goal is for U.S. PCPS member firms to better connect with similarly sized international firms that share the same focus on quality and client service.

MEMBER PIPELINE

We continue to focus our recruiting and marketing efforts on attracting and retaining young professionals in the CPA profession pipeline. This year, membership grew by 3% for those age 35 and under. In addition, there were nearly 80% more specialty credential exam candidates in the pipeline this year compared to last. There are now more than 60,000 professionals in AICPA specialty sections and credentials, growing over 30% in the last four years.

The Recruitment and Retention Toolkit, a step-by-step resource to help firms attract, recruit and retain diverse talent, which the AICPA National Commission on Diversity and Inclusion created, experienced broad usage over the past fiscal year. The AICPA supplemented this resource with a three-part webinar series on Unconscious Bias in the spring 2016. In October 2015, the Institute solidified its partnership with the National Academy Foundation (NAF) to promote the accounting profession to high school students in NAF's Academies of Finance. Beginning this fall, students will be exposed to a variety of accounting resources to expand their knowledge of the accounting profession. Lastly, a national campaign titled "Real CPAs," developed to further engage college students interested in pursuing their CPA license after graduation, is scheduled to launch this fall as well.

MEMBER SPECIALIZATION AND CREDENTIALING

Over the past few years, the Securities and Exchange Commission (SEC), Public Company Accounting Oversight Board (PCAOB), international regulators and firms have raised concerns about trends related to the quality, consistency and transparency of fair value measurements in public company financial statement reporting. To address these concerns and protect the public interest, the AICPA has worked with valuation professional organizations, the Appraisal Foundation, the International Valuation Standards Council and several accounting firms to explore possible solutions, including additional training, accreditation and oversight.

In May 2015, the AICPA's governing Council approved the development of two new fair value measurement credentials, available to CPAs and finance professionals. The AICPA, along with the American Society of Appraisers (ASA) and the Royal Institution of Chartered Surveyors (RICS), partnered to develop the pathway for the Certified in Entity and Intangible Valuations™ (CEIV™) credential, which will launch in fall 2016. The AICPA is developing a second fair value measurement credential that will focus on the valuation of complex financial instruments and will launch in summer 2017.

The AICPA continues its efforts to support the Not-For-Profit (NFP) community. In 2015, we introduced the AICPA NFP Section, providing tools, resources and networking opportunities for the Section's now 4,500 members — composed of CPAs and professionals working for or volunteering with NFPs. The Section promotes informed financial management practices in the areas of accounting and financial reporting, assurance, governance and tax compliance.

In addition, the AICPA's two NFP Certificate programs offer educational pathways that include comprehensive, hands-on learning focused on an overview of an NFP's unique financial needs. The success of these award-winning programs demonstrates the importance and need for resources in the growing NFP sector.

MEMBER LEARNING AND COMPETENCY

The AICPA continues to transform how continuing professional education (CPE) is delivered by embracing the 2014 Future of Learning report's recommendations to:

- Innovate and experiment
- Ignite a passion for learning
- Make learning personal
- Measure what matters

The AICPA I CIMA Competency and Learning website now supports all of the profession's technical areas and allows members to explore and create plans for building their competencies. One area of focus this year was building and measuring audit competencies in connection with the EAQ initiative. These efforts underscore the AICPA's commitment to the development of a CPE model that is competency- rather than compliance-based.

The AICPA competency frameworks underpin all of our product development efforts. Notable recent competency-driven releases include the single audit and employee benefit plan (EBP) certificates. These programs consist of live courses, webcasts and interactive on-demand learning options. The education is reinforced by competency-based assessments that focus on how a professional applies his or her learning.

When an individual successfully completes these and other certificate programs, he or she will earn a digital badge. Digital badges replace paper certificates, helping professionals increase the visibility of their accomplishments, which they can share through social forums, such as LinkedIn. Additionally, digital badges, which employers can view and research online, remain relevant. They refresh or expire based on whether or not the recipient completes updated assessments when the body of knowledge changes.

The Institute continues to experience double-digit growth in both virtual and on-demand offerings. Customers value the high-quality interactive experience of these virtual offerings and benefit from cost-savings since no travel is required. Growth in this area can be attributed to quality on-demand programs such as the two NFP certificates and the Tax Staff

Essentials program, as well as growth of core offerings in ethics, accounting and auditing. Our premium learning programs utilize gamification and engage learners in meaningful, relevant interactive experiences that can be put into practice immediately. Dozens of state societies include AICPA on-demand and virtual CPE options for their members.

The AICPA has embraced new ways to offer members professional development opportunities through the use of blended learning. Developed on behalf of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), the COSO Internal Control Certificate program includes a hands-on workshop that features exercises to apply best practices, discussions with experts and significant opportunities for peer-to-peer learning. After completing the program, participants take a competency-based exam to earn their digital badge. The hands-on workshop was the highest-rated live event of the year, having reached capacity with its initial four sessions, resulting in six additional sessions being offered.

TECHNOLOGY

The AICPA continues to leverage the CPA Horizons 2025 Report to advance our digital strategy as well, creating the greatest value and loyalty among our members by reinforcing the AICPA's relevance and leadership in the accounting profession. Earlier this year, the AICPA, through CPA.com and in partnership with Confirmation.com, launched the RIVIO Clearinghouse. RIVIO, an acronym for Repository of Intelligent Validated Inputs and Outputs, is an online financial document clearinghouse that enables private businesses to exchange key financial information with their investors and lenders, as well as retrieve information from their CPA firm. This ensures data is submitted from an authenticated source. The platform supports greater controls, increases collaboration and minimizes risk. RIVIO, named a 2016 Top New Product by *Accounting Today*, is defining the new standard in financial information exchange for private companies.

REGULATORY AND LEGISLATIVE ADVOCACY

The AICPA continually monitors and advocates for legislative, regulatory and administrative tax matters. One of the biggest and more costly issues affecting not only our members, but taxpayers in general, is identity theft. The AICPA continues to support and recommend provisions to Congress that will combat tax identity theft. For example, the AICPA is currently supporting the expansion of Identity Protection Personal Identification Numbers (IP PINs) to any individual, rather than simply to victims of identity theft-related tax fraud. Further, the AICPA has created Tax Identity Theft Information and Tools as a resource for members.

The AICPA's advocacy efforts also aim to protect the public from incompetent and unethical tax preparers. Our approach focuses on legislation that targets unlicensed preparers and would (1) allow the IRS to revoke Preparer Tax Identification Numbers (PTINs) for certain violations; (2) mitigate marketplace confusion; and (3) exempt non-signers in CPA firms from needing a PTIN.

Improving and modernizing IRS service is a high priority for the AICPA. The declining level of service, resulting in long hold times and delayed responses, has been a major source of frustration for members. Earlier this year, the chair of the AICPA's Tax Executive Committee testified at a public forum on the IRS Future State initiative. He offered recommendations for how the IRS could operate as a modern organization that efficiently collects taxes and provides quality customer service. The AICPA looks forward to a continuing dialogue with lawmakers and the IRS.

As both individuals and businesses continue to expand their operations globally, countries, including the U.S., must increasingly modify their international tax laws. Recently, the AICPA successfully secured technical improvements to comprehensive reporting regulations (known as country-by-country reporting) that will have a significant effect on U.S. businesses. The AICPA also lobbied for a much-needed election on the effective date that would reduce the burdens placed on businesses. The Institute also seeks to soften the impact of proposed regulations that would broadly affect the tax treatment of debt instruments commonly used in both domestic and international transactions. The AICPA's website contains international resources, guides and tools for tax preparers to access.

EVOLUTION OF THE PROFESSION

In June 2016, members of the AICPA and CIMA, in separate membership ballots, overwhelmingly approved the creation of a new international accounting association to integrate operations and represent the entire profession, while preserving the membership bodies of both organizations. The Association of International Certified Professional Accountants (the Association) will launch in 2017 and focus on strengthening advocacy, promoting the CPA and CGMA designations, and enhancing the resources available to public and management accountants in the U.S. and around the world.

A supermajority of AICPA members who voted supported the proposal, 86.5% to 13.5%, according to the independent tabulator Survey and Ballot Systems Inc. CIMA members endorsed the proposal 89.7% to 10.3%, according to their separate independent tabulator. CPA firm and business leaders, as well as 52 state CPA societies, also supported the proposal.

The Institute will continue its efforts to promote, protect and broaden the CPA profession and advance audit, tax and other core services. AICPA members will receive all existing benefits, as well as added value from the new association. All AICPA and CIMA members will have automatic dual membership in the Association at no additional cost.

The approval of the new association signifies an evolution of the initial joint venture between the AICPA and CIMA that began in 2011. The Association will represent approximately 600,000 current and next generation professionals in 91% of the world's countries.

REPORT ON OPERATIONS

INVESTMENTS

In Fiscal 2016, the Institute's investments portfolio decreased by $25.6 million as a result of liquidating (a) $12.5 million to voluntarily fund our pension plan, resulting in significant savings on plan fees and (b) $11.8 million to fund strategic initiatives, as well as a small loss on the portfolio offset by reinvestment of dividends and interest income. The Institute's Investments Committee actively monitors the performance and allocation of its investment portfolios and responds to changes in market conditions while maintaining a long-term view of the markets. We follow a moderate risk approach to investing and maintain an investment portfolio that is diversified across equity and fixed income securities.

CPA EXAMINATION

In Fiscal 2016, the domestic Uniform CPA Examination (Domestic Examination) recognized $22.5 million in revenue and expensed costs equal to the revenue in accordance with our tri-party agreement with National Association of State Boards of Accountancy (NASBA) and Prometric. The agreement provides for the AICPA to break even with respect to revenue and costs over the life of the contract through 2024. As a result, the Institute has a liability of approximately $11.4 million at July 31, 2016, compared to $11.5 million at July 31, 2015. The liability is included in accounts payable and other liabilities in the accompanying combined statements of financial position.

In Fiscal 2016, the international administration of the CPA Exam (International Examination) continued in Bahrain, Brazil, Japan, Kuwait, Lebanon and the United Arab Emirates. International Examination revenue was approximately $2.6 million. The International Examination agreement does not provide for the AICPA to break even; accordingly, revenues and costs are recognized as earned or incurred, resulting in a profit of approximately $1.6 million in Fiscal 2016. We continue to seek opportunities to enter additional countries to continue to ensure the advancement of the U.S. CPA internationally.

LONG-TERM DEBT

In April 2016, the AICPA fully repaid its existing term loan. A total of $3.8 million in principal payments was made during the year. The Institute has no long-term debt as of July 31, 2016.

DEFINED BENEFIT PLANS

Over the last several years, pension plan sponsors have been affected by the volatile market and interest rate environments, as well as updated mortality tables issued by the Society of Actuaries (SOA).

The Institute has long been proactive in managing its pension plan (Plan) volatility and expense. In Fiscal 2013, the AICPA accelerated its already scheduled Plan freeze from April 30, 2017 to June 30, 2013. In Fiscal 2014, the Institute undertook a one-time campaign to offer lump sum payments to the Plan's terminated vested participants in order to reduce the Plan's liabilities and further mitigate volatility within the Plan. The campaign resulted in a settlement for over 50 percent of the terminated vested participants and a reduction of plan liabilities of approximately $15.1 million. In January 2016, the Institute funded an additional $12.5 million into the Plan, thereby eliminating Pension Benefit Guaranty Corporation premiums, saving nearly $400,000 during the plan year.

The Institute continues to ensure the Plan is properly funded with nearly $72 million contributed since Fiscal 2005. The Plan's assets increased during the year from $98.5 million to $120.0 million as a result of contributions and positive asset performance. The Plan's projected benefit obligation increased during the year from $131.2 million to $142.4 million due to the decline in the discount rate from 4.35% to 3.60%.

The AICPA uses a dynamic asset allocation strategy for the Plan, which is intended to reduce volatility of the Plan's funded status. As the Plan's funded status improves, the AICPA will increase the target allocation of the Plan's assets in fixed income investments and decrease the overall target allocation of the Plan's assets in equity investments. As a result of the decline in the discount rate and change in mortality tables, the target asset allocations were revised from 65% fixed income and 35% equity and other types of investments at July 31, 2015, to 55% fixed income and 45% equity and other types of investments at July 31, 2016.

CPA.COM

Over the past year, CPA.com launched the RIVIO Clearinghouse, an online financial document clearinghouse that enables private businesses to exchange with their investors and lenders key financial information provided by a validated CPA firm. CPA.com also continued to grow its Digital CPA community, both through its signature conference and through practice development workshops and training focused on helping firms develop new business lines based on these new technological capabilities. For Fiscal 2016, CPA.com had $26.7 million in revenue and a net loss of approximately $2.5 million, which included a $1.3 million expense for goodwill amortization and $0.9 million expense related to the allowance on CPA.com's deferred tax assets. Without the goodwill amortization and deferred tax expense, CPA.com would have had a net loss of $0.3 million for the fiscal year.

COMBINED FINANCIAL RESULTS

These combined financial statements include the accounts of the AICPA, its subsidiaries, CPA.com and NorthStar Conferences, LLC (NorthStar), and the Related Organizations (AICPA Foundation, AICPA Benevolent Fund, Inc. and Accounting Research Association, Inc.) and the majority owned joint venture with CIMA, the Association of International Certified Professional Accountants. The AICPA and NorthStar are not responsible for any liabilities or other obligations of CPA.com or the Related Organizations included in the combined financial statements. Highlights from our combined financial statements as of and for the year ended July 31, 2016, include the following:

- Total assets on a combined basis were $240.2 million in Fiscal 2016 compared to $265.1 million in Fiscal 2015. The decrease is the result of investment liquidations to fund both our pension plan and strategic initiatives as discussed above.
- Total liabilities on a combined basis were $187.0 million in Fiscal 2016 compared to $196.7 million in Fiscal 2015. The decrease is due to the decline in our deferred employee benefit liability as a result of the contributions funded through the liquidation of investments, offset by current year pension expense. Also included was a reduction in liabilities with the repayment of our long-term debt, offset by small increases in our accounts payables and deferred rent.
- Operating revenue on a combined basis was $252.5 million in Fiscal 2016 compared to $247.5 million in Fiscal 2015. The increase is primarily driven by continued growth in our AICPA membership dues revenue as a result of our high membership renewal rate and continuous growth through new members, as well as the success of our specialty sections and credentials.
- Operating expenses on a combined basis were $260.5 million in Fiscal 2016 compared to $245.4 million in Fiscal 2015. The increase in Fiscal 2016 expenses is driven by increased expenditures related to EAQ initiatives, regulatory and legislative advocacy efforts, international activities to expand the CGMA brand and communications supporting pipeline development and efforts surrounding the new Association.
- Cash used in operating activities was $14.8 million in Fiscal 2016 primarily related to the substantial funding of our pension plan and expenditures to support key strategic initiatives. In Fiscal 2015, cash provided by operating activities was $3.8 million driven by favorable timing of our membership dues, offset by funding of our pension plan and reinvestment into the next version of the CPA Exam.
- Cash provided by investing activities was $27.8 million in Fiscal 2016 compared to $1.3 million in Fiscal 2015. The increase is primarily due to the liquidation of investments to fund our pension plan and strategic initiatives.
- Cash used in financing activities was $3.8 million in Fiscal 2016 compared to $5 million in Fiscal 2015, both amounts are related to principal payments on long-term debt which was paid off in April 2016.

CONCLUSION

The AICPA is proud to serve our members and the accounting community. We have invested in a culture of innovation and change to deliver the products and services needed to keep pace with the dynamic and specialized needs of the accounting profession, while staying committed to our core services. We continue to focus on advancing quality and showcasing the CPA, in addition to advocating for favorable regulatory and legislative actions. As we look to the future and the launch of the new Association, which will extend our influence and ability to support the profession, we are "Ready for the Next."

Management believes that the AICPA has sufficient liquidity and working capital to meet its needs in the upcoming year, and it continues to monitor current economic conditions and their impact on operating results. Along with the Finance Committee and our Board of Directors, we monitor our liquidity both on a short-term basis as well as a long-term basis to ensure we can execute our strategic plan.

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 (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 governing 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, CohnReznick LLP, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the governing Council, the Board of Directors and committees of the Board of Directors. 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.

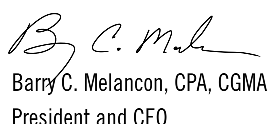
Established policies are communicated throughout the Institute and enhanced through the careful selection, training and development of its staff. Internal auditors monitor the operation of internal control and report findings and recommendations to management and the Board of Directors. Corrective actions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

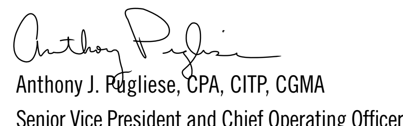
The Institute has assessed its internal control over financial reporting in relation to criteria described in "*Internal Control – Integrated Framework (2013)*" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Institute believes that, as of July 31, 2016, its internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition met those criteria.

CohnReznick LLP was also engaged to report separately on the Institute's assessment of its internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition.

The report of the independent public accountants follows this statement.



Barry C. Melancon, CPA, CGMA
President and CEO



Anthony J. Pugliese, CPA, CITP, CGMA
Senior Vice President and Chief Operating Officer

INDEPENDENT AUDITOR'S REPORTS

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 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, 2016, based on criteria established in "Internal Control — Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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. 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 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 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, 2016, is fairly stated, in all material respects, based on criteria established in "Internal Control — Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

CohnReznick LLP
Roseland, New Jersey
September 26, 2016

To the Members of the American Institute of Certified Public Accountants

We have audited the accompanying combined financial statements of American Institute of Certified Public Accountants and Related Organizations, which comprise the combined statements of financial position as of July 31, 2016 and 2015, and the related combined statements of activities, preferred stock and net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of American Institute of Certified Public Accountants and Related Organizations as of July 31, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CohnReznick LLP
Roseland, New Jersey
September 26, 2016

FINANCIAL STATEMENTS JULY 31, 2016 AND 2015

AMERICAN INSTITUTE OF CERTIFIED PUBLIC
ACCOUNTANTS AND RELATED ORGANIZATIONS

COMBINED STATEMENTS OF FINANCIAL POSITION
JULY 31, 2016 AND 2015

	2016	2015
	($000)	
ASSETS		
Cash and cash equivalents	**$ 52,939**	$ 43,680
Certificates of deposit	**-**	11,337
Investments	**113,258**	138,820
Accounts and notes receivable, net of allowance for doubtful accounts	**15,246**	13,662
Deferred costs and prepaid expenses	**26,732**	26,716
Goodwill and other intangible assets	**12,553**	12,553
Furniture, technology and leasehold improvements, net	**19,474**	18,299
Totals	**$ 240,202**	$ 265,067
LIABILITIES		
Accounts payable and other liabilities	**$ 48,645**	$ 46,949
Advance dues	**79,967**	79,251
Unearned revenue	**12,638**	12,145
Long-term debt	**-**	3,750
Deferred rent	**13,598**	12,441
Deferred employee benefits	**32,116**	42,122
Total liabilities	**186,964**	196,658
PREFERRED STOCK AND NET ASSETS		
Preferred stock of CPA.com	**35,790**	35,790
Net assets		
Unrestricted		
AICPA and related organizations, excluding cumulative unrecognized prior service credit, net, and actuarial loss — deferred employee benefits	**97,316**	105,350
Deferred employee benefits — cumulative prior service credit, net, and actuarial loss	**(57,540)**	(51,714)
Total AICPA	**39,776**	53,636
CPA.com, excluding cumulative unrecognized prior service credit, net, and actuarial loss — deferred employee benefits	**(24,278)**	(24,202)
Deferred employee benefits — cumulative prior service credit, net, and actuarial loss	**(179)**	(133)
Total CPA.com	**(24,457)**	(24,335)
Total unrestricted	**15,319**	29,301
Temporarily restricted	**2,129**	2,670
Permanently restricted	**-**	648
Total net assets	**17,448**	32,619
Total preferred stock and net assets	**53,238**	68,409
Totals	**$ 240,202**	$ 265,067

See Notes to Combined Financial Statements.

	2016	2015
	($000)	
CHANGES IN NET ASSETS		
Operating revenue		
Dues	**$ 135,262**	$ 131,063
Publications	**19,299**	20,990
Professional development and member service conferences	**48,460**	47,942
Professional examinations	**25,199**	23,821
Investment and sundry income	**22,652**	22,064
Contributions	**1,672**	1,649
Total operating revenue	**252,544**	247,529
Operating expenses		
Program services		
Publications	**25,825**	25,682
Professional development and member service conferences	**44,562**	40,806
Member services		
Regulation and legislation	**33,748**	29,512
Technical	**18,978**	17,635
International	**14,482**	11,051
Other	**12,265**	13,485
Professional examinations	**24,309**	22,864
Communications and public relations	**14,597**	12,075
Diversity, inclusion, scholarship and assistance programs	**7,969**	8,807
Supporting activities		
General management	**22,725**	22,362
Organization and membership development	**12,457**	11,565
Technology	**28,620**	29,561
Total operating expenses	**260,537**	245,405
Excess (deficit) of operating revenue over (under) expenses before other charges	**(7,993)**	2,124
Other charges		
Pension and postretirement benefit charges over net periodic cost	**(5,872)**	(15,237)
Interest income incurred on derivative financial instruments	**72**	263
Totals	**(5,800)**	(14,974)
Deficit of operating revenue under expenses	**(13,793)**	(12,850)
Gains (losses) on investments	**(1,378)**	5,682
Change in net assets	**(15,171)**	(7,168)
Net assets, beginning	**32,619**	38,983
Conversion of preferred stock into common stock	**-**	804
Net assets, end	**$ 17,448**	$ 32,619

See Notes to Combined Financial Statements.

	($000)		
2016:	AICPA and Related Organizations	CPA.com	TOTAL
Preferred stock		**$ 35,790**	**$ 35,790**
Net assets			
Unrestricted	**$ 39,776**	**(24,457)**	**15,319**
Temporarily restricted	**2,129**	**–**	**2,129**
Total net assets	**41,905**	**(24,457)**	**17,448**
Totals	**$ 41,905**	**$ 11,333**	**$ 53,238**
2015:			
Preferred stock		$ 35,790	$ 35,790
Net assets			
Unrestricted	$ 53,636	(24,335)	29,301
Temporarily restricted	2,670	–	2,670
Permanently restricted	648	–	648
Total net assets	56,954	(24,335)	32,619
Totals	$ 56,954	$ 11,455	$ 68,409

See Notes to Combined Financial Statements.

	2016	2015
	($000)	
Increase in cash and cash equivalents		
Operating activities		
Cash received from members and customers	**$ 249,977**	$ 249,714
Interest and dividends received	**2,192**	2,349
Cash paid to suppliers, employees and others	**(266,755)**	(247,706)
Interest paid	**(236)**	(417)
Income taxes paid	**(12)**	(133)
Net cash provided by (used in) operating activities	**(14,834)**	3,807
Investing activities		
Payments for purchase of amortizable assets	**(4,316)**	(7,688)
Payments for purchase of furniture, technology and leasehold improvements	**(3,362)**	(2,234)
Payments for purchase of certificates of deposit	**(26,437)**	(51,841)
Payments for purchase of investments	**(26,899)**	(45,155)
Proceeds from sale of certificates of deposit	**37,774**	63,942
Proceeds from sale of investments	**51,083**	44,298
Net cash provided by investing activities	**27,843**	1,322
Financing activities		
Repayment of long-term debt	**(3,750)**	(5,000)
Net cash used in financing activities	**(3,750)**	(5,000)
Net increase in cash and cash equivalents	**9,259**	129
Cash and cash equivalents, beginning	**43,680**	43,551
Cash and cash equivalents, end	**$ 52,939**	$ 43,680

See Notes to Combined Financial Statements.

	2016	2015
	($000)	
Reconciliation of change in net assets to net cash provided by (used in) operating activities		
Change in net assets	**$ (15,171)**	$ (7,168)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization		
Furniture, technology and leasehold improvements	**4,194**	4,868
Internal software	**2,477**	1,062
Losses on disposal of assets	**6**	3
(Gains) losses on investments	**1,378**	(5,682)
Deferred taxes	**919**	117
Provision for		
Accounts and notes receivable	**225**	(428)
Deferred rent	**(856)**	(1,568)
Deferred employee benefits	**7,482**	16,361
Changes in operating assets and liabilities		
Accounts and notes receivable	**(1,809)**	2,022
Deferred costs and prepaid expenses	**2,335**	(2,007)
Accounts payable and other liabilities	**265**	245
Advance dues	**716**	2,203
Unearned revenue	**493**	737
Deferred employee benefits	**(17,488)**	(6,958)
Total adjustments	**337**	10,975
Net cash provided by (used in) operating activities	**$ (14,834)**	$ 3,807
Supplemental disclosures of noncash investing activities		
Furniture, technology and internal software financed through accounts payable	**$ 1,431**	$ 1,286
Leasehold improvements financed through tenant improvement allowance	**$ 2,013**	$ –

See Notes to Combined Financial Statements.

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION

The combined financial statements include the accounts of American Institute of Certified Public Accountants (AICPA), its for-profit subsidiaries, CPA2Biz, Inc. (D/B/A CPA.com) and NorthStar Conferences LLC (NorthStar), (collectively AICPA and Subsidiaries), and the following related organizations: the Accounting Research Association, Inc. (ARA); the AICPA Benevolent Fund, Inc. (Benevolent Fund); the American Institute of Certified Public Accountants Foundation (Foundation); and the Association of International Certified Professional Accountants (International Association), which have been combined in accordance with accounting standards for not-for-profit organizations. AICPA, the ARA and the Foundation are incorporated in the District of Columbia; CPA.com and NorthStar are incorporated in Delaware; the Benevolent Fund is incorporated in New York and the International Association is a Verein formed in Switzerland (Swiss Verein). As used herein, the "Institute" includes AICPA and Subsidiaries and the related organizations.

AICPA is the national professional organization for Certified Public Accountants. It provides members with the resources, information and leadership that enable them to provide services in the highest professional manner. CPA.com is the exclusive online and offline marketing agent for certain products and services of AICPA and for maintaining the official website for the sale of AICPA products (see Note 9). NorthStar provides professional development programs and conferences for various industries. The mission of the ARA is to provide funds for studies and research in regard to principles and standards of the accounting profession. The Benevolent Fund provides temporary financial assistance to members of AICPA and their families. The Foundation's mission is to grow the next generation of CPAs through three primary focuses: accounting education and outreach, scholarships and fellowships, and diversity and inclusion.

In May 2011, AICPA's governing Council voted unanimously to approve an agreement with the London-based Chartered Institute of Management Accountants (CIMA) to create a new Chartered Global Management Accountant designation for professional management accountants worldwide. As a result, the International Association was formed on January 1, 2012, whereby AICPA owns 60% and CIMA owns 40%.

In June 2016, members of AICPA and CIMA, in separate membership ballots, approved the creation of a new international accounting association to integrate operations and represent the entire profession, while preserving the membership bodies of both organizations. The new Association of International Certified Professional Accountants (Association) will launch in 2017 and focus on strengthening advocacy, promoting the CPA and CGMA designations, and enhancing the resources available to public and management accountants in the U.S. and around the world. With the launch of the Association, it is intended that the International Association, the Swiss Verein, will be dissolved.

AICPA and State Societies Network, Inc., composed of substantially all of the individual state societies of CPAs located throughout the United States, are equal percentage members of Shared Services, LLC (SSLLC), a Delaware limited liability company, organized for the purpose of managing shared services between AICPA and participating state societies. AICPA accounts for its 50% investment in SSLLC on the equity method, although the investment remains at zero as of July 31, 2016. SSLLC maintains a limited amount of activity, principally group buying power on certain products and services for the benefit of AICPA and participating state societies. SSLLC's Board of Directors continues to explore additional opportunities to fulfill its mission.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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.

The financial statement presentation follows the accounting standards for not-for-profit organizations. Under these standards, an organization is required to report information regarding its financial position and activities according to three classes of net assets depending on the existence and/or nature of any donor restrictions as follows: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

The Foundation is a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Disclosures about an organization's endowment funds (both donor restricted endowment funds and Foundation Board of Trustees designated endowment funds) are required whether or not the organization is subject to UPMIFA. As stated in Note 1, the Foundation is incorporated in the District of Columbia. The District of Columbia adopted UPMIFA effective in 2008. The Foundation's Board of Trustees has determined that the majority of the Foundation's net assets do not meet the definition of endowment under UPMIFA. The Foundation is governed subject to its Constitution and Bylaws. Certain contributions are received subject to other gift instruments or are subject to specific agreements with the Foundation. Under the terms of the Constitution and Bylaws, the Board of Trustees has the ability to distribute so much of the corpus of any trust or separate gift, devise, bequest or fund as the Board of Trustees in its sole discretion shall determine. As a result of the ability to distribute corpus, all contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for financial statement purposes and are not subject to donor-imposed stipulations.

Temporarily restricted net assets consist of restricted contributions receivable and the remaining portion of donor-restricted endowment funds that are not classified as permanently restricted net assets. When donor restrictions expire, (that is, when a stipulated time restriction ends or a purpose restriction is met),

temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports that support as unrestricted.

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Such permanently restricted net assets represent the fair value of the original gift as of the gift date and the original value of subsequent gifts to donor-restricted endowment funds.

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

Certain accounts in the 2015 combined financial statements have been reclassified to conform with the current year's presentation.

Valuation of assets and liabilities

The Institute considers investments with an original maturity of 90 days or less when purchased to be cash equivalents. As of July 31, 2016 and 2015, the Institute's cash equivalents consisted primarily of short-term U.S. Treasury obligations and money market funds.

Certificates of deposit have maturity dates greater than 90 days and less than one year.

Investments in equity securities with readily determinable fair values and all investments in debt securities and investment partnerships are reported at fair value with unrealized gains and losses included in the combined statements of activities. The investment partnership represents ownership in a private investment partnership that trades foreign equity securities under the direction of asset managers.

The carrying amounts of cash and cash equivalents, certificates of deposit, receivables and accounts payable approximate fair value because of the short-term nature of the items. The fair value of equity securities and fixed income securities is determined by quoted market prices. The fair value of the investment partnership is determined by the asset manager based on the market values of the underlying equity securities. The fair value of long-term debt is based on current interest rates for similar debt instruments. The fair value of derivative instruments is based on current settlement value.

Inventories consist of paper and material stock, publications in process and printed publications and course material and are stated at the lower of cost or market. A moving average method is used for determining inventory cost. Inventories are reflected as a component of deferred costs and prepaid expenses in the accompanying combined statements of financial position.

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business acquisitions that occurred after July 1, 2002, and are accounted for under the purchase accounting method. Other intangibles include identifiable intangible assets purchased by CPA.com, primarily in connection with business acquisitions, and are presented net of impairment charges. Goodwill is not amortized and is evaluated annually for impairment.

In January 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-02 "Intangibles — Goodwill and Other (Topic 350) — Accounting for Goodwill," which allows a Private Company to amortize goodwill over an appropriate period, not to exceed 10 years. CPA.com adopted this standard as of the beginning of the 2015 fiscal year for its financial statements (see Note 9). A not-for-profit entity is excluded from the definition of a Private Company. As such, amortization is reversed in combination.

The Institute records impairment losses on goodwill and other intangibles 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.

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 3 to 10 years. Leasehold improvements are amortized over the shorter of their useful lives or the remainder of the lease period.

Concentrations of credit risk

Financial instruments, which potentially subject the Institute to concentrations of credit risk, include cash and cash equivalents, certificates of deposit, investments, accounts and notes receivable, contributions receivable and derivative financial instruments used in hedging activities. The Institute considers investments with an original maturity of 90 days or less to be cash equivalents. At times, during the years ended July 31, 2016 and 2015, balances on deposit at financial institutions exceeded Federal Deposit Insurance Corporation (FDIC) insured limits. Cash equivalent amounts invested in the Wells Fargo Sweep Investment Account are not insured nor guaranteed by the FDIC. The Institute maintains its cash with a high quality financial institution which the Institute believes limits these risks.

As of July 31, 2016 and 2015, cash and cash equivalents temporarily restricted for use by the ADS Program (see Note 10) were $2,214,000 and $1,059,000. As of July 31, 2016 and 2015, certificates of deposit temporarily restricted as to use for the ADS Program were $0 and $900,000.

Restricted cash is limited in use for legislative consulting services. At July 31, 2016 and 2015, restricted cash, which is included in cash and cash equivalents on the combined statements of financial position, totaled $751,000 and $848,000.

Credit risk with respect to accounts receivable is also limited because the Institute deals with a large number of customers in a wide geographic area.

The Institute closely monitors the extension of credit to its customers while maintaining allowances for potential credit losses. On a periodic basis, the Institute evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit considerations. As of July 31, 2016 and 2015, the allowance for doubtful accounts was $2,008,000 and $1,783,000.

Notes received by the Benevolent Fund in connection with assistance payments to members and their families are recorded as assets, net of amounts deemed uncollectible. Notes are noninterest bearing and are due upon the death of the member and spouse and/or sale of the mortgaged property. Credit risk with respect to receivables is limited because the Benevolent Fund secures notes from a limited number of payment recipients in a wide geographic area. The Benevolent Fund closely monitors the extension of notes to its members while maintaining allowances for potential losses. On a periodic basis, the Benevolent Fund evaluates its receivables and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit considerations.

The Institute was exposed to loss in the event of nonperformance by the counterparty on the interest rate swap contract used in hedging activities. The contract has concluded, and thus the Institute has no concentration of credit risk as of July 31, 2016.

Derivative financial instruments

The Institute utilizes derivative financial instruments to reduce interest rate risk. The Institute does not hold or issue derivative financial instruments for trading purposes. The Institute recognizes all derivatives as either assets or liabilities in the combined statements of financial position and measures those instruments at fair value. Changes in the fair value of those instruments are reported in the combined statements of activities.

Revenue recognition

Revenue from dues is recorded in the applicable membership period.

Revenue from publications, professional development and member service conferences and professional examinations is 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 is primarily for one year.

Revenue related to affinity contracts is recognized when earned, in accordance with the respective agreements.

Advertising revenue is recorded as print or electronic publications are issued.

Revenue is recognized net of any related sales taxes.

AICPA entered into a third-party agreement that provides for AICPA to break even with regards to revenue earned and certain external and internal costs incurred in developing, maintaining and providing the computerized Uniform CPA Examination in jurisdictions (Jurisdictions) recognized as member bodies of the National Association of State Boards of Accountancy (NASBA), referred to as the Domestic Examination. Accordingly, such revenue or costs have been deferred and are reflected in the accompanying combined statements of financial position net of revenue or cost recognized (see Note 7). AICPA also entered into a third-party agreement (International Examination Agreement) for AICPA to provide the computerized Uniform CPA Examination, on behalf of the Jurisdictions, to select international locations (International Examination). The International Examination Agreement does not provide for AICPA to break even; accordingly, revenues and costs are recognized as earned or incurred.

Contributions are recorded as unrestricted, temporarily restricted or permanently restricted when received depending on the existence and/or nature of any donor restrictions. Donated investments are recorded as contributions at their estimated fair values on the date of donation. Conditional promises to give are not included as support until the conditions are substantially met.

A large number of people have contributed significant amounts of time to the activities of the Institute. The combined financial statements do not reflect the value of these contributed services because they do not meet the criteria for recognition.

Promotions and advertising

Costs of promotions and advertising are expensed as incurred. Total promotion and advertising expenses were $7,716,000 and $6,498,000 for the years ended July 31, 2016 and 2015.

Accounting for website and software development costs

All costs incurred in the planning stage of developing a website 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 website on their servers are expensed over the period of benefit. Fees paid to consultants 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.

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

Capitalized internal use website 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 website is completed and the website is ready for its intended use.

All costs in the preliminary project stage for other computer software developed for internal use 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.

Income taxes

AICPA and ARA are organized as 501(c)(6) Not-For-Profit organizations under the Internal Revenue Code (Code). Certain income of AICPA, however, is subject to taxation. The Benevolent Fund and Foundation are organized as 501(c)(3) Not-For-Profit organizations under the Code. CPA.com 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 taxable income will be incorporated into the unrelated business income of AICPA. The International Association is formed as a Swiss Verein and, as such, does not engage in commercial activity. The Finance Department of the Canton of Zurich has determined the entity is tax exempt and reviews its exemption status on an annual basis.

CPA.com 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.

The Institute has analyzed tax positions taken for filing with the Internal Revenue Service and state jurisdictions where it operates. The Institute does not anticipate any adjustments that would result in a material adverse effect on the Institute's financial condition, results of operations or cash flows. The Institute's U.S. federal income tax returns prior to fiscal year 2013 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

As of July 31, 2016 and 2015, the Institute did not recognize any interest and penalties associated with tax matters.

Employee benefit plans

The Institute sponsors a defined benefit pension plan and postretirement benefit plan and reports the funded status of the plans in its combined statements of financial position and measures the plan assets and benefit obligations as of July 31.

Subsequent events

The Institute has evaluated events and transactions for potential recognition or disclosure through September 26, 2016, which is the date the combined financial statements were available to be issued.

NOTE 3 – FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Institute has the ability to access.

Level 2: Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the assets or liabilities;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at July 31, 2016 and 2015.

Common stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Institute are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Institute are deemed to be actively traded.

Foreign stocks and private equity investments: The Institute's foreign stocks are valued at the closing price reported on the active market on which the individual securities are traded. The Institute's private equity investments include a direct investment in a limited partnership. Investment in the limited partnership is designated as a level 2 instrument. The NAV, as provided by the limited partnership, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV.

Hedging instruments: To estimate the fair value of the interest rate swap liability as of the measurement date, the Institute obtains inputs other than quoted prices that are observable for the liability. These inputs include current interest rates and consider nonperformance risk of the Institute and that of its counterparties (see Note 6).

The following tables set forth by level, within the fair value hierarchy, the Institute's assets and liabilities at fair value as of July 31, 2016 and 2015:

	2016		
	Fair Value Measurements Using		
	Level 1	Level 2	Total
		($000)	
***Equity securities:**			
U.S. large-cap growth	**$ 13,960**		**$ 13,960**
U.S. large-cap value	**13,105**		**13,105**
U.S. mid-cap growth	**5,529**		**5,529**
U.S. mid-cap value	**4,580**		**4,580**
U.S. small-cap blend	**9,688**		**9,688**
International equity	**10,821**		**10,821**
Real estate: global	**4,190**		**4,190**
Totals	**61,873**		**61,873**
****Fixed income securities:**			
U.S. Government, corporate bonds and other fixed income	**43,793**		**43,793**
Limited partnership:			
International equity value		**$ 7,592**	**7,592**
Total assets measured at fair value	**$ 105,666**	**$ 7,592**	**$ 113,258**

	2015		
	Fair Value Measurements Using		
	Level 1	Level 2	Total
		($000)	
***Equity securities:**			
U.S. large-cap growth	$ 16,253		$ 16,253
U.S. large-cap value	14,734		14,734
U.S. mid-cap growth	6,250		6,250
U.S. mid-cap value	5,259		5,259
U.S. small-cap blend	10,448		10,448
International equity	11,050		11,050
Real estate: global	4,472		4,472
Totals	68,466		68,466
****Fixed income securities:**			
U.S. Government, corporate bonds and other fixed income	61,882		61,882
Limited partnership:			
International equity value		$ 8,472	8,472
Total assets measured at fair value	$ 130,348	$ 8,472	$ 138,820
Financial derivative instruments:			
Interest rate swap		$ 72	$ 72
Total liabilities measured at fair value		$ 72	$ 72

*Includes common stocks, foreign stocks and equity mutual funds.
**Includes fixed income mutual funds invested in corporate funds, foreign bonds and U.S. Government securities.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Institute believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Included in the Institute's combined statements of financial position as of July 31, 2016 and 2015, are investments of $113,258,000 and $138,820,000, and accounts payable and other liabilities related to the interest rate swap of $0 and $72,000. Such amounts have been measured at fair value on a recurring basis.

The investment in limited partnership has certain redemption restrictions. Withdrawals can be made from the capital account at the end of each month by giving prior notice to the general partner on or before the 15th day of such month. Once the withdrawal is made, it cannot be cancelled without the general partner's written consent to such cancellation. Withdrawal payments are made as soon as practicable, generally not more than 10 business days after the withdrawal date, but the general partner intends to pay withdrawal proceeds as quickly as possible.

The following table summarizes investments measured at fair value based on the NAV per share as of July 31, 2016 and 2015:

Investment Name	**Fair Value July 31, 2016**	Fair Value July 31, 2015	Unfunded Commitment	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
	($000)				
Mondrian All Countries World Ex-US Equity Fund, L.P.	**$ 7,592**	$ 8,472	-	Monthly	15 days

Mondrian All Countries World Ex-US Equity Fund, L.P. : The Fund pursues its investment objective primarily by investing in the global equity securities of non-U.S. issuers, including the securities of emerging market companies. Equity securities in which the Fund may invest include, but are not limited to, common stocks, preferred stocks, convertible securities, index-related securities, certain non-traditional equity securities and warrants.

NOTE 4 – FURNITURE, TECHNOLOGY AND LEASEHOLD IMPROVEMENTS

Furniture, technology and leasehold improvements consist of:

	2016		2015
		($000)	
Furniture	$ 5,671		$ 5,549
Technology	21,604		22,067
Leasehold improvements	23,289		21,018
	50,564		48,634
Less accumulated depreciation and amortization	31,090		30,335
	$ 19,474		$ 18,299

NOTE 5 – GOODWILL

Goodwill and other intangible assets are as follows:

	2016		2015
		($000)	
Goodwill	$ 12,553		$ 12,553
Other intangible assets:			
Contracts and technology	5,645		5,645
Less accumulated amortization	5,645		5,645
Contracts and technology, net	–		–
	$ 12,553		$ 12,553

There is no amortization expense on intangible assets with definitive lives for the years ended July 31, 2016 and 2015.

The Institute performs an annual impairment test of goodwill in the fourth quarter of each year. In 2016, the Institute performed a quantitative analysis using a weighted average of discounted cash flow approach and market valuation approach, which compared CPA.com's net book value to the value indicated by the fair value of CPA.com's equity securities. In 2015, as permitted by ASU No. 2011-08 "Intangibles — Goodwill and Other (Topic 350)," the Institute performed a qualitative analysis and determined it was more likely than not that the fair value of CPA.com exceeds its carrying value. Goodwill was not impaired for the years ended July 31, 2016 and 2015.

NOTE 6 – LONG-TERM DEBT

Long-term debt at July 31, 2016 and 2015, was $0 and $3,750,000. The long-term debt was a term note payable in equal quarterly installments of $1,250,000 through April 29, 2016. Interest was payable at three-month LIBOR plus 155 basis points.

Interest expense for the years ended July 31, 2016 and 2015, was $93,000 and $157,000.

The term note payable had an interest rate swap contract that expired April 29, 2016, and was executed to reduce the impact on interest expense fluctuations on the notional amount of the variable rate debt. The contract, designated as a cash flow hedge, effectively converted the variable rate to a fixed rate of 5.77%. At July 31, 2016 and 2015, the fair value of the interest rate swap was a liability of approximately $0 and $72,000 and has been reflected as a component of accounts payable and other liabilities in the combined statements of financial position. The corresponding adjustment to interest expense is reflected separately as a component of other charges in the combined statements of activities.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Computerization of the Uniform CPA Examination

In connection with the Domestic Examination, AICPA is party to an agreement with NASBA and Prometric, which expires in 2024, whereby AICPA delivers the Domestic Examination in a computer-based format. NASBA developed and maintains the National Candidate Database, which serves as the gateway for candidates applying to take the Domestic Examination. Prometric is responsible for providing scheduling, test preparation, test delivery and results processing of the Domestic Examination in a computer-based testing environment consistent with AICPA and NASBA requirements.

AICPA receives fees through NASBA based upon the number of examinations taken. The agreement provides for AICPA to break even with regard to costs incurred in developing and maintaining the Domestic Examination. Through July 31, 2016, approximately $226,472,000 of revenue and $215,119,000 of costs have been incurred. During the years ended July 31, 2016 and 2015, AICPA recognized revenue of approximately $22,472,000 and $21,268,000. Accordingly, costs equal to the revenue recognized have been expensed. At July 31, 2016 and 2015, the balance of revenues in excess of costs of $11,353,000 and $11,486,000 is included in accounts payable and other liabilities in the accompanying combined statements of financial position.

In conjunction with the International Examination Agreement, AICPA offers the International Examination in Bahrain, Brazil, Japan, Kuwait, Lebanon and the United Arab Emirates.

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.

Minimum rental commitments on non-cancelable real estate and equipment

leases in effect as of July 31, 2016, exclusive of future escalations for real estate taxes and building operating expenses, less future minimum sublease rentals, are:

Year Ending July 31,	Amount
	($000)
2017	$ 8,522
2018	9,007
2019	8,277
2020	6,577
2021	6,498
Years subsequent to 2021	33,215
Future minimum rental commitments	$ 72,096

Rental expense for the years ended July 31, 2016 and 2015, was $7,872,000 and $7,461,000.

Other commitments

The Institute has other commitments for service agreements in place with various vendors. Minimum commitments in effect as of July 31, 2016, are:

Year Ending July 31,	Amount
	($000)
2017	$ 2,831
2018	1,950
2019	1,076

Letters of credit

As of July 31, 2016, the Institute has an irrevocable standby letter of credit of $167,000, which expires on July 31, 2017, and is associated with its North Carolina lease.

Line of credit

AICPA has available a line of credit with a bank for short-term borrowings of up to $32,000,000 at the bank's prevailing interest rate. Amounts outstanding under the line of credit are collateralized by certain investments. There were no outstanding borrowings at July 31, 2016, beyond the letter of credit. The line of credit expires April 30, 2018.

Litigation

From time to time, the Institute is a defendant in actions arising in the ordinary course of business. In the opinion of management, such litigation will not have a material adverse effect on the Institute's financial condition or change in net assets.

NOTE 8 – EMPLOYEE BENEFIT PLANS

Defined benefit pension plan

The Institute sponsors a noncontributory defined benefit pension plan (the Plan) for qualifying employees. The amount of the annual benefit to be paid at normal retirement date is based on credited service, which varies based on participant hire dates. On June 30, 2013, the Institute closed the Plan to new entrants and froze future benefit accruals to existing employees.

The Society of Actuaries (SOA) published mortality tables and improvement scales are used in developing the best estimate of mortality for plans in the U.S. In October 2014, the SOA published updated mortality tables and an updated improvement scale, both of which reflect longer anticipated lifetimes. Based on an evaluation of these new tables and perspective of future longevity, the Institute updated the mortality assumptions for purposes of measuring the pension and postretirement health care plans at July 31, 2015. In October 2015, SOA revised its original estimates from October 2014 and issued updated tables that reflect two more years of data and a lower degree of mortality improvement than in the previous year. The Institute updated the mortality assumptions for the purposes of measuring the pension and postretirement health care plans at July 31, 2016.

Economic assumptions used to determine the benefit obligations recognized in the combined statements of financial position are:

	July 31, 2016	July 31, 2015
Discount rate	**3.60%**	4.35%
Rate of compensation increase	**N/A**	N/A

Weighted average assumptions used to determine the net periodic benefit cost are:

	July 31, 2016	July 31, 2015
Discount rate	**4.35%**	4.35%
Expected return on plan assets	**5.75%**	6.15%
Rate of compensation increase	**N/A**	N/A

The Institute is utilizing a yield curve methodology to determine its discount rate. This methodology uses a weighted average yield to determine the Plan's discount rate by forecasting the Plan's expected benefit payments by year.

The expected return on Plan assets was derived by reviewing historical returns, preparing several models about future expected returns using the current diversified asset mix and conducting a historical study of market recoverability.

For the year ending July 31, 2017, the Institute expects to contribute $4,000,000 to the Plan. The following tables provide further information about the Institute's Plan:

	July 31, 2016	($000)	July 31, 2015
Projected benefit obligation	**$ 142,387**		$ 131,227
Fair value of plan assets, net of plan liabilities of $114 and $145	**119,995**		98,486
Net unfunded status of the plan recognized as a liability in the combined statements of financial position	**$ 22,392**		$ 32,741
Employer contributions	**$ 16,999**		$ 6,450
Benefit payments	**$ (5,325)**		$ (5,626)
Accumulated benefit obligation	**$ 142,387**		$ 131,227
Periodic benefit cost for the year ended	**$ 1,409**		$ 1,214

Amounts in unrestricted net assets that have not yet been recognized as a component of net periodic benefit cost comprise the following:

	Unrecognized Prior Service Cost	Actuarial (Gain) Loss	Total
		($000)	
Balance, July 31, 2014	$ 433	$ 34,991	$ 35,424
Increase during 2015	-	14,245	14,245
Amortization during 2015	(11)	(843)	(854)
Balance, July 31, 2015	422	48,393	48,815
Increase during 2016	-	**6,326**	**6,326**
Amortization during 2016	**(11)**	**(1,074)**	**(1,085)**
Balance, July 31, 2016	**$ 411**	**$ 53,645**	**$ 54,056**

Included in the increase in the actuarial loss for the years ended July 31, 2016 and 2015, is a gain of approximately $2,700,000 and loss of approximately $14,200,000 relating to the changes in the projected benefit obligation as a result of the adoption of the new mortality tables during each of the respective years.

The amounts in unrestricted net assets and expected to be recognized as a component of net periodic benefit cost for the year ending July 31, 2017, are $11,000 and $1,329,000, representing amortization of net prior service cost and amortization of actuarial loss.

Estimated future Plan payments reflecting expected future service for each of the five years subsequent to July 31, 2016, and in the aggregate for the five years thereafter are as follows:

Year Ending July 31,	Amount
	($000)
2017	$ 5,688
2018	5,927
2019	6,117
2020	6,395
2021	6,630
2022 to 2026	35,723

The Institute's overall investment strategy is to provide for growth of capital with a moderate level of volatility. The expected long-term rate of return for the Plan's assets is based on the expected return of each of the asset categories, weighted based on the median of the target allocation for the class. All investments are chosen with care, skill, prudence and due diligence with the assistance of a paid investment consultant. Performance of each investment manager is reviewed quarterly and interviews of each investment manager are generally conducted within a two-year cycle by an investments committee comprised of Institute members with investment industry experience. Investment risk is managed in several ways, including, but not limited to, the creation of a diversified portfolio across multiple asset classes and geographic regions. A listing of permitted and prohibited investments is maintained in the Institute's Statement of Investment Policy, dated November 2015.

The Institute adopted a dynamic asset allocation strategy for the Plan, which is intended to reduce volatility with the Plan's funded status as the funded status improves over time. As the Plan's funded status improves, the Institute will increase the target allocation of the Plan's assets in fixed income investments and decrease the overall target allocation of the Plan's assets in equity and other types of investments. For fiscal 2016 the target asset allocations were 55% fixed income and 42% equity securities and 3% other types of investments. For fiscal 2015 the target allocations were 65% fixed income and 32% equity securities and 3% other types of investments. Fixed income investments include securities issued or guaranteed by the U.S. Government, its agencies or government-sponsored enterprises, mutual funds, as well as corporate bonds from diversified industries and mortgage-backed and asset-backed securities. Equity investments include investments of large-cap, mid-cap and small-cap companies located in the United States as well as investments of non-United States based companies. Other types of investments include an investment in a limited partnership that holds positions in non-United States based companies.

The fair values of the Institute's Plan assets at July 31, 2016 and 2015, by asset category, are as follows:

	2016		
	Fair Value Measurements Using		
	Level 1	Level 2	Total
		($000)	
***Equity securities:**			
U.S. large-cap growth	$ 13,094		$ 13,094
U.S. large-cap value	7,103		7,103
U.S. mid-cap growth	3,071		3,071
U.S. mid-cap value	5,745		5,745
U.S. small-cap blend	5,610		5,610
International equity	10,045		10,045
Real estate: global	3,662		3,662
Totals	48,330		48,330
****Fixed income securities:**			
U.S. Government, corporate bonds and other fixed income funds	4,954	$ 37,705	42,659
Other:			
Commingled Pool		24,241	24,241
International equity value		4,390	4,390
	$ 53,284	$ 66,336	$ 119,620

	2015		
	Fair Value Measurements Using		
	Level 1	Level 2	Total
		($000)	
***Equity securities:**			
U.S. large-cap growth	$ 7,484		$ 7,484
U.S. large-cap value	7,106		7,106
U.S. mid-cap growth	3,140		3,140
U.S. mid-cap value	3,417		3,417
U.S. small-cap blend	5,566		5,566
International equity	5,801		5,801
Real estate: global	3,291		3,291
Totals	35,805		35,805
****Fixed income securities:**			
U.S. Government, corporate bonds and other fixed income funds	38,788	$ 18,992	57,780
Other – International equity value		4,700	4,700
	$ 74,593	$ 23,692	$ 98,285

The following table sets forth the investment strategy and redemption terms for the investment that is measured at the net asset value per share as of July 31, 2016 and 2015:

Investment Name	Fair Value July 31, 2016	Fair Value July 31, 2015	Unfunded Commitment	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
	($000)				
Mondrian All Countries World Ex-US Equity Fund, L.P.	**$4,390**	$4,700	-	Monthly	15 days

(A) See Note 3 — Fair Value Measurements for description of the fund.

Postretirement plan

The Institute sponsors employee postretirement health care and life insurance plans for qualifying employees hired before May 1, 2003, and contributes toward the annual cost of retirees remaining in these plans.

Economic assumptions used to determine the benefit obligations recognized in the combined statements of financial position are:

	July 31, 2016	July 31, 2015
Discount rate	**3.40%**	4.15%

Weighted average assumptions used to determine the net periodic benefit cost are:

	July 31, 2016	July 31, 2015
Discount rate	**4.15%**	4.15%

The Institute is utilizing a yield curve methodology to determine its discount rate. This methodology uses a weighted average yield to determine the postretirement plan's discount rate by forecasting the postretirement plan's expected benefit payments by year.

For the year ending July 31, 2017, the Institute expects to contribute $573,000 to the postretirement plan.

The following table provides further information about the Institute's postretirement plan:

	July 31, 2016	July 31, 2015
	($000)	
Postretirement benefit obligation	**$ 9,724**	$ 9,381
Net unfunded status of the plan recognized as a liability in the combined statements of financial position	**$ 9,724**	$ 9,381
Employer contributions	**$ 489**	$ 508
Benefit payments	**$ (546)**	$ (574)
Periodic benefit expense (income) for the year ended	**$ 201**	$ (90)

Amounts in unrestricted net assets that have not yet been recognized as a component of net periodic benefit cost comprise the following:

	Unrecognized Prior Service Credit	Actuarial (Gain) Loss	Total
		($000)	
Balance, July 31, 2014	$ (3,083)	$ 4,269	$ 1,186
Increase during 2015	–	1,378	1,378
Amortization during 2015	813	(345)	468
Balance, July 31, 2015	(2,270)	5,302	3,032
Increase during 2016	–	**398**	**398**
Amortization during 2016	**808**	**(575)**	**233**
Balance, July 31, 2016	**$ (1,462)**	**$ 5,125**	**$ 3,663**

Included in the increase in the actuarial loss for the years ended July 31, 2016 and 2015, is a gain of approximately $232,000 and a loss of approximately $1,400,000 relating to changes in the projected benefit obligation as a result of the adoption of the new mortality tables during each of the respective years.

The amounts in unrestricted net assets and expected to be recognized as a component of net periodic benefit cost for the year ending July 31, 2017, are ($806,000) and $580,000, representing amortization of net prior service credit and amortization of actuarial loss.

The weighted average health care cost trend rate and the ultimate trend rate used in measuring the postretirement benefit expense is 5%. For those retiring prior to May 1, 2003, the plan is assumed to meet the actuarial equivalence definition of Medicare Part D. This conclusion is based upon guidance issued to date and an analysis of the plan's prescription programs compared to Medicare Part D.

Estimated future postretirement benefit payments reflecting expected future service for each of the five years subsequent to July 31, 2016, and in the aggregate for the five years thereafter are as follows:

Year Ending July 31,	Amount
	($000)
2017	$ 573
2018	584
2019	594
2020	588
2021	593
2022 to 2026	3,412

Defined benefit pension and postretirement plans

The total unrecognized prior service credit, net and the total actuarial loss for the defined benefit pension and postretirement plans have been aggregated and reflected as a separate component of unrestricted net assets on the combined statements of financial position. As of July 31, 2016 and 2015, such amounts total ($57,719,000) and ($51,847,000).

Defined contribution plans

AICPA and CPA.com also sponsor separate 401(k) defined contribution plans covering substantially all employees meeting minimum age and service requirements. Participation in the plans is optional and employer contributions being made to the plan are in amounts equal to a certain percentage of employees' contributions. The cost of these plans was $5,070,000 and $4,884,000 for the years ended July 31, 2016 and 2015.

Deferred compensation

AICPA has a nonqualified deferred compensation plan for certain key employees. Amounts accrued under this plan are $5,575,000 and $4,452,000 as of July 31, 2016 and 2015, and are included in the accompanying combined statements of financial position as a component of accounts payable and other liabilities. As of July 31, 2016, unvested deferred compensation to be recognized over a period of three years was $3,084,000.

NOTE 9 – CPA.COM

CPA.com is a provider of cloud-based Business Solutions targeting the practice management, client services and developmental needs of AICPA members. CPA.com is also responsible for marketing certain AICPA products and services, managing certain AICPA affinity programs and for providing certain technology services support to AICPA.

In return for the services provided to AICPA, CPA.com is paid either a fee or commission. CPA.com accounts for the revenue on sales of AICPA products net as an agent. The net amount is the amount charged to the customer less the amount paid to the supplier, which in most cases is AICPA.

CPA.com's revenue for the fiscal years ended July 31, 2016 and 2015, was $26,716,000 and $26,711,000. CPA.com's revenue included $12,373,000 and $12,459,000 in commissions for services rendered for marketing and promotion of certain AICPA product lines in 2016 and 2015. CPA.com's revenue also included $14,343,000 and $14,252,000 for Business Solutions, AICPA's affinity services, technology services to AICPA and other business lines for the years ended July 31, 2016 and 2015.

CPA.com's net loss for the fiscal years ended July 31, 2016 and 2015, was $2,471,000 and $1,212,000. The net loss includes two significant noncash expenses: (1) goodwill amortization of $1,255,000 in both 2016 and 2015 and (2) deferred income tax expense of $919,000 in 2016 and $117,000 in 2015.

As of July 31, 2016 and 2015, the aggregate number of shares of all classes of stock which CPA.com is authorized to issue is (i) 120,000,000 shares on 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 have been designated 8% Series A Convertible Preferred Stock (Series A) and 8,000,000 shares designated 8% Series B Convertible Preferred Stock (Series B).

As of July 31, 2016 and 2015, the 8,000,000 authorized shares of preferred stock, which are not considered to be either Series A or Series B, have not been issued.

Common Stock has voting rights but no liquidation privileges. Dividends may only be paid after the holders of both Series A and Series B have received the dividends to which they are entitled for that year.

Series A and Series B have rights to a liquidation preference whereby the Series A is senior to Series B and both are senior to Common Stock. Series A and Series B also have rights to an 8% noncumulative dividend, when and if declared by the Board of Directors of CPA.com, as well as a conversion right into Common Stock at the option of the holder, and anti-dilution protection. The holders of Series A and Series B vote with the holders of the Common Stock as if they were a single class. In addition, the holders of Series A and Series B have special voting rights relating to the creation of more senior preferred stock.

During the year ended July 31, 2015, two stockholders of Series B elected to convert a total of 157,000 shares into an equal number of Common Stock, thereby reducing the Preferred Stock of CPA.com by $804,000.

As of July 31, 2016, AICPA and the Foundation control approximately 77% of CPA.com's voting rights. In accordance with CPA.com's amended shareholder agreement, AICPA's voting percentage will exceed 50% in perpetuity, subject to AICPA's approval to a transaction in which additional shares are issued to an investor. Notwithstanding AICPA's controlling interest in CPA.com, AICPA does not guarantee any of the obligations nor is it responsible for any of CPA.com's liabilities. For the years ended July 31, 2016 and 2015, the primary source of funding for CPA.com has been the preferred stockholders and its own current operations; AICPA has only paid a de minimus amount of cash for its stock.

AICPA has a note receivable from CPA.com, which is fully collateralized by CPA.com's website and other digital assets of CPA.com, bears a 4.25% interest rate and is due on December 31, 2019. Under the terms of the note, interest is paid monthly beginning in July 2005. The principal balance of the note of $4,344,000 and related accrued interest for the periods prior to fiscal 2005 of $1,042,000 have been eliminated in consolidation.

At July 31, 2016, CPA.com has deferred tax assets of approximately $32,207,000 which arise primarily from net operating loss carryforwards for federal and state income tax purposes of approximately $29,472,000 and $1,743,000 expiring in 2020 through 2035 and certain other temporary differences. Included in these net operating losses are pre-acquisition losses of approximately $23,700,000, which are subject to annual limitations.

Due to the uncertainty of the realization of the deferred tax assets, substantially a full valuation allowance has been provided. The deferred tax asset at July 31, 2016 and 2015, was $2,675,000 and $3,594,000. At July 31, 2016, the deferred tax asset decreased by $919,000 based on management's belief that it is more likely than not $2,675,000 of deferred tax asset will be realized before expiration, although realization is not assured. The amount of the deferred tax asset considered realizable could change in the near term if estimates of future taxable income during the net operating loss carryforward period change. The effect of the change in the deferred tax asset has been included in supporting activities — general management in the combined statements of activities.

NOTE 10 – PREFERRED STOCK AND NET ASSETS

Preferred stock and net assets and changes therein for the years ended July 31, 2016 and 2015, follow:

	Balance, August 1, 2014	Increase (Decrease)	Balance, July 31, 2015	**Increase (Decrease)**	**Balance, July 31, 2016**
			($000)		
Preferred stock of CPA.com	$ 36,594	$ (804)	$ 35,790	**$ –**	**$ 35,790**
Net assets					
Unrestricted					
AICPA	45,391	(6,653)	38,738	**(13,931)**	**24,807**
CPA.com	(25,147)	812	(24,335)	**(122)**	**(24,457)**
ARA	440	(1)	439	**(431)**	**8**
Benevolent Fund	8,819	364	9,183	**(78)**	**9,105**
Foundation	6,257	479	6,736	**863**	**7,599**
International Association	(1,357)	(103)	(1,460)	**(283)**	**(1,743)**
	34,403	(5,102)	29,301	**(13,982)**	**15,319**
Temporarily restricted					
Foundation	3,932	(1,262)	2,670	**(927)**	**1,743**
ARA	-	-	-	**386**	**386**
	3,392	(1,262)	2,670	**(541)**	**2,129**
Permanently restricted					
Foundation	648	–	648	**(648)**	**–**
Total net assets	38,983	(6,364)	32,619	**(15,171)**	**17,448**
Total preferred stock and net assets	$ 75,577	$ (7,168)	$ 68,409	**$ (15,171)**	**$ 53,238**

Temporarily restricted net assets are subject to donor-imposed stipulations that can be met either by actions of the Foundation and ARA and/or the passage of time.

Temporarily restricted net assets consist of diversity and inclusion, accounting education and research initiatives as follows:

	2016	2015
	($000)	
Foundation Accounting Doctoral Scholars (ADS)	**$1,517**	$1,958
Foundation Advanced Accounting High School Course	**-**	6
Foundation Financial Education Initiatives	**1**	1
Foundation John L. Carey Scholarships	**225**	247
Foundation Library Support	**-**	61
Foundation National Commission on Diversity and Inclusion Support	**-**	397
ARA — Audit Analytics Initiative	**386**	-
	$2,129	$2,670

The Foundation's permanently restricted net assets were comprised of the Library Endowment Fund created many years ago to support an AICPA Library no longer maintained by the AICPA. During the year ended July 31, 2016, the legacy donors of the Library Endowment Fund agreed to release any and all previous restrictions on their contributions and to permit the Foundation to use the unspent funds for general charitable purposes. These funds are now unrestricted net assets of the Foundation.

NOTE 11 – OTHER RELATED PARTY TRANSACTION

AICPA receives royalty, advertising and general and administrative services fees from the American Institute of Certified Public Accountants Insurance Trust (Trust). AICPA received net revenue of $4,903,000 and $4,777,000 from the Trust for the years ended July 31, 2016 and 2015.

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