

CALIFORNIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
Board of Director Meeting
Minutes

Friday, Nov. 8, 2002

Claremont Resort & Spa,
Berkeley CA

Members Present:

Nancy Wheeler-Chandler, Chair
John Costello
David George
Paul Herrerias
Pam Kelty
John Levy
Teresa Mason
Jerry Nightingale
Dan O'Hare
Mark Parkinson
Jessie Powell
Michelle Walters
Steve Wimmers
Gregg Wind
Chris Yahng

Staff Present

John Angelo
Donna Lekosky
Linda McCrone
Clar Rosso
Sarah St. Charles
Jeannie Tindel
Susan Waters

Absent

Bruce Allen

Action Items

- The Board approved changes to the day's agenda.
- The Board approved the May 2002 Board of Directors minutes.
- The Board approved the July 2002 Annual Members Business Meeting minutes, following the deletion of a paragraph.
- The Board approved the July 2002 Council Meeting minutes following a change to the last item, noting it was a council action, not a member action.
- The Board approved the minutes of the Aug. 8, 2002 Board of Directors teleconference meeting.
- The Board approved the FY04 Budget Guidelines as presented by the Finance Committee.
- The Board approved recommending to Council that it approve the May 1–July 31, 2003 operating budget that is based on the 2002-03 budget.
- The Board approved a motion to defer back to the Finance Committee its recommendation to adopt a 13-month budget year, so that the committee can define the consequences of a fiscal year-end change, and then report back at the February 2003 Board meeting.
- The Board approved a recommendation to Council to approve the Bylaws changes recommended by the Bylaws Implementation Task Force.
- The Board approved an allocation of \$5,000 from the contingency fund to make a contribution to CVAS and to suggest that CVAS contact other states for funding.
- The Board approved its support of a position that it would not interfere with, nor try to direct the work of, the Committee on the Future of California's Professional Accountants.

- The Board approved allocation of \$20,000 from the contingency fund to cover expenses for the Committee on the Future of California's Professional Accountants.

Treasurer's Report

Jessie Powell briefly reviewed the Finance Committee's process of selecting an investment manager and finalizing the investment policy statement. She commended Jerry Nightingale for leading the Investment Committee through this process.

Nightingale reviewed the investment policy statement. The Finance Committee developed the investment policy statement, which includes a new asset allocation, with the assistance of Arnerich Massena, CalCPA's investment consultants. CalCPA liquidated its investment portfolio with Salomon Smith Barney and funded the new asset allocation at the end of August. Charles Schwab is now the custodian of CalCPA's assets. Powell noted that CalCPA expects to recognize significant savings in investment management fees going forward. Paul Herrerias asked for a specific accounting of the cost savings and Donna Lekosky agreed to gather this information.

Lekosky reviewed the August 2002 financial statements. The most significant financial event during this fiscal year was the liquidation of CalCPA's old investment portfolio and the funding of the new investment portfolio. Powell explained that CalCPA had recorded unrecognized gains and losses related to the investment portfolio and, by liquidating the portfolio, have basically fixed our losses. A discussion then ensued regarding membership revenues. Susan Waters distributed the October 2002 membership report and Gregg Wind discussed initiatives currently being evaluated by the Membership Committee.

Powell reviewed the FY04 budget guidelines. CalCPA will face a very difficult budget year with revenues declining and expenses increasing. Levy suggested that perhaps one of the reasons for a fund balance is to provide for operational continuity in lean times. The consensus was that CalCPA should strive to attain a zero-based budget for FY04. Herrerias asked if we should consider setting aside a specific dollar amount per year for buying a building. Powell explained that the Finance Committee reviews the fund balance annually as part of the budget process. The FY04 budget guidelines recommended by the Finance Committee were approved.

Powell then reviewed the proposed change in budget year. CalCPA's bylaws state that the budget must be approved by May 1 of each year. Due to the new meeting schedule, the FY04 budget can not be approved at a Council meeting until July 2003. An immediate solution is needed to address this problem for the FY04 budget and a long-term solution is needed to permanently address this issue.

Approving a budget by May 1 of each year also presents a problem for the Finance Committee. Finance Committee members are asked to devote a substantial amount of time to budget review during their busiest time of year.

The Finance Committee is recommending changing the budget year to July 1 through June 30, to coincide with statewide officer terms. Powell explained that CalCPA budgets on a monthly basis so that reporting for both budget and actual can be done on any, as well as multiple, year ends. Powell also mentioned that May, June and July are relatively stable months, with few if any significant new initiatives being undertaken.

Lekosky distributed a budget for May 2003 through July 2003. This budget is based on the May 2002 through July 2002 budget and can be used as a stop-gap budget until the Council meets in July to approve the FY04 budget.

The Board discussed these matters at length. The May 2003 through July 2003 budget recommended by the Finance Committee was approved and will be presented to the Council in January.

Several options were discussed to address the ongoing budget approval issue including a 13-month budget, changing the fiscal year, a 15-month budget and using technology for budget review and discussion. John Levy moved that this matter be deferred to the February board

meeting and Pam Kely seconded the motion. The Board also asked the Finance Committee to reconsider the matter and prepare comprehensive materials detailing the pros and cons of each alternative for consideration at the February board meeting.

Bylaws Implementation Task Force Report

Steve Wimmers provided an informational report about the petition presented at the July Council meeting regarding how members are nominated for AICPA Council. The petition requests that the nomination process move from the CalCPA chair to the Nomination and Leadership Development Committee. Wimmers reminded the Board that the Council had deferred a vote on the issue until the January 2003 Council meeting. He reported that according to legal counsel, the Council can choose between three ways for the members to vote on the proposal: at the annual meeting, a special members meeting or by written ballot. All members must be notified, and this can happen through *California CPA*, which is mailed to all members. Wimmers noted that members can only vote 10 proxies and he discussed the costs associated with each option.

Wimmers presented the report of the Bylaws Implementation Task Force. Some discussion ensued about the task force's charge given its long-term existence. Wimmers then reviewed each motion from the task force to update the bylaws.

The Board recommended that the Council approve the Bylaws changes recommended by the Bylaws Implementation Task Force.

CVAS Report

Nancy Wheeler-Chandler circulated information from CVAS Executive Director Paul Glass and gave some history about the Clearinghouse for Volunteer Accounting Services. CVAS has lost its funding from California Board of Accountancy. Jeannie Tindel reported that the CBA had concern that CVAS had expanded beyond California. Board members discussed thoroughly a proposal that CalCPA provide CVAS with a check-off box for donations on its dues statement. Discussion included the impact of a check-off on PAC and scholarship contributions.

David George's motion to allocate \$5,000 from the contingency fund for a contribution to CVAS and suggest that CVAS contact other states for funding was approved. A second motion by John Levy to consider a dues check-off did not pass.

Government Relations Report

Jeannie Tindel reported that CalCPA anticipates significant activity on the regulatory and the legislative fronts next year. Legislators indicate that additional reform may be directed at the profession or they might focus more on corporate governance. The California Board of Accountancy is aggressively pursuing a national role for itself in developing regulations to implement the legislation passed last year along with the development of national audit standards, continuing "reform" of the CPA profession, meeting with the General Accounting Office and responding to SEC regulations. She noted that there is the very real risk that efforts will be made to apply the laws and standards for publicly traded companies to all engagements.

Tindel reported that the CBA plans to adopt proposed regulations at its Nov. 15 meeting and will then open the regulations for public comment and will probably schedule a public hearing for March. However, the new laws will be effective in January. John Levy recommended that CalCPA and its related entities make every effort to inform members of the changes and their new responsibilities under the law. It was noted that all CPAs received a letter from the CBA and CalCPA had sent a BUZZ to all members and was preparing an article for the magazine's December issue. He indicated that it would be best to have material available to hand out at CPE courses to educate CPAs on complying with the new audit documentation standard as well as to continue to inform members of the changes in other ways, and it is recommended that the Foundation develop a course on new audit documentation standards.

On the national level it was reported that the Department of Labor may respond to perceptions of a problem with ERISA audits and that could generate more adverse publicity that could lead to additional legislative and regulatory efforts directed at the profession.

The Task Force on Corporate Governance formed by Governor Davis has been meeting and has done a comparison of the Sarbanes-Oxley bill with California law. The resulting matrix will be the subject of discussion at its Nov. 14 meeting.

Tindel also reported that the elections had resulted in the election of two additional Republicans in the Assembly and could result in one additional Republican senator, but that the Assembly's moderate pro-business Democratic base had been reduced due to the replacement of moderates by more liberal Democrats.

Wheeler-Chandler announced that a task force will be formed to assist in management of the regulatory and legislative issues in the coming year.

Pension Plan Update

David George reported on activities of the Pension Plan Committee on behalf of committee chair Don Gursey. He gave some history about the 401(k) and defined benefit plan, and reported that the Education Foundation and GIT participate in the defined benefit plan. George noted that the actuary had recommended a contribution of \$875,000 to the defined benefit plan a year ago, but the contribution for the current plan year is \$575,000. George noted that the defined benefit plan will be funded at 90 percent of the actuarial liability.

Education Foundation Report

Mark Parkinson gave the Education Foundation report. Overall, he said the year is going well. Parkinson noted that the Foundation's accrued pension liability was reduced by \$157,000 and that the Foundation donated \$5,000 to ACAP. He reported that the Foundation's free eight-hour CPE course for chapters is continuing as is its free eight hours of CPE for new CalCPA members. He noted that the Education Foundation and CalCPA are sharing address changes between their databases and that the Western Schools program has been successful so far. Parkinson clarified that the Education Foundation has no objections to changing the fiscal year-end.

Communications Report

Clar Rosso reported that CalCPA has launched its FY03 image advertising campaign and gave some background about how the campaign was developed. She noted that there will be two runs of college print ads along with traditional tax season radio advertising this year. She also pointed out that Beta Alpha Psi advisers have been enlisted as contact points for students to respond to the ads and that CalCPA has supplied each adviser with materials for students, including student applications and *Quest*. Rosso reported that public relations activities are brisk and include tax tips, televised tax call-ins and steady local and national media exposure for members. She added that the communications division is starting to collect information on member volunteer activities. Rosso reported that more than 19,000 *Quest* magazine's have been distributed and that CalCPA had just completed its first teacher workshop with favorable results. She noted that CalCPA members have visited more than 5 percent of the schools in California and that the requests continue to come in. She added that CalCPA will have a presence at statewide mathematics conference for teachers in early December. Rosso reported that CalCPA Daily Clips would be rolled out to the membership no later than early January. She noted that Aldo Maragoni had joined the communications team as its new managing editor. Finally she reported that despite the poor advertising environment, CalCPA advertising revenues would meet budget for the year.

Beta Alpha Psi (BAP)

John Angelo reported that CalCPA remains a Regional Associate of Beta Alpha Psi and plans to participate again in its annual Western Regional Conference that will be held in San Diego February 21-22, 2003. CalCPA will offer a technical session on how BAP chapters can work with CalCPA chapters to fulfill their program requirements. He noted that all BAP campus advisers are listed in the student area of CalCPA Online. It was suggested that we make sure that BAP chapter websites link to CalCPA Online.

Chapter First Vice President Conference.

Angelo reported that the chapter first vice president's conference will be a two-hour morning session for chapter 1st VPs to prepare for becoming chapter president. The conference will take place in conjunction with the Jan. 10-11 Council meeting from 7:30-9:30 a.m. Friday, Jan. 10.

CalCPA will pay for an additional nights lodging for the 1st VPs on the night Jan. 9 to attend the meeting early the next morning. The council meeting will follow at 10 a.m.

Practice Continuation Plan.

Angelo reported that a subcommittee of the Estate Planning Committee has gathered a few interested members to investigate the feasibility of creating a practice continuation plan that would be available to members. The program would have two main elements: providing service to the clients until the owner recovers or a successor can be found and a mechanism for CalCPA to act as honest broker between buyer and seller. The first step is an article on the subject that will be in the January/February 2003 issue of *California CPA* to inform members of the concept and seek feedback on interest in such a program through a member survey.

CEO Report

Susan Waters noted that the next Council meeting is in San Diego and that Nomination and Leadership Development Committee members will be present. She noted that Council will nominate representatives to serve on the committee at this meeting.

Waters reported that the length of the July Council meeting will increase to include a leadership component that previously was a separate meeting in June.

Waters reported on a letter a member had received from the City of Fremont demanding business taxes. She noted that she had written to the tax authority in Fremont, and expressed the opinion that the city has the authority to inquire whether or not CPAs conduct business in Fremont, but does not have authority to demand proof of employment or professional activities outside of their political jurisdiction.

Waters reported on the Committee on the Future of California's Professional Accountants. She noted that the committee had held its first meeting and all members were quite engaged. The group has structured its report and will issue the report by spring. Waters says the report's focus is on restoring trust. She stated the committee's desire to be independent of CalCPA and asked for the Board's assurance.

Waters requested that the Board allocate \$20,000 from contingency fund to cover the committee's meeting costs and possible research by independent graduate students. The motion was approved.

Waters updated the Board on CalCPA's strategic plan and presented the multi-page tactics section that included input from all member segments, chapters and committees. She noted that it wouldn't be possible to pursue all suggestions, but that at a management retreat later in November, staff will develop an action plan and report back to member groups.

AICPA Council Report

Nancy Wheeler-Chandler report on the AICPA Council's October meeting in Maui. She noted that AICPA vice president of public affairs John Hunnicut has retired and has been replaced by Jim O'Malley. She reported that CPA2Biz and the AICPA have a new arrangement, the AICPA will pay CPA2 Biz to provide it with marketing, technology and its website. She shared that the computerized CPA Exam, scheduled to be ready in fall 2004, will result in an exam that is more business and research oriented. And that examinees will be able to take the test at any time. She also updated the group on XBRL, a governance resolution from the Council's New York members that was killed and noted that Bill Ezzell is the AICPA's liaison to CalCPA.

Peer Review Report

Linda McCrone overviewed who participates in peer review, as well as types of reviews and reports. McCrone then reported on issues facing peer review both in California and nationally. She commented on the California Board of Accountancy survey response to the AICPA Peer Review Board and called Board members' attention to the favorable peer review statistics included in the Board packet.

Open Forum

John Levy brought up a concern that we are not doing enough for members in industry. Susan reported on CalCPA's industry survey and current efforts to reach out to industry members, including the initiation of an e-newsletter for members in industry that will debut in 2003.

Adjourned at 4:09 p.m.