

**TRANSACTIONS OF SOCIETY OF ACTUARIES  
1994 VOL. 46**

**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying statement of financial condition of the Society of Actuaries as of July 31, 1994 and 1993, and the related statements of revenues and expenses and changes in membership equity, and cash flows for the years then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Society of Actuaries as of July 31, 1994 and 1993, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

[*Signed*] SELDEN, FOX AND ASSOCIATES, LTD.  
Certified Public Accountants

September 15, 1994

FINANCIAL REPORT  
STATEMENT OF FINANCIAL CONDITION  
ASSETS

	JULY 31, 1994			JULY 31, 1993		
	General Fund	Restricted Fund	Total	General Fund	Restricted Fund	Total
<b>Current Assets:</b>						
Cash and cash equivalents .....	\$ 239,386	\$ 1,143,829	\$ 1,383,215	\$ 2,012,029	\$ 984,287	\$ 2,996,316
Investments .....	3,719,023		3,719,023	1,117,578		1,117,578
Accounts receivable, less allowance for doubtful accounts of \$35,000 for 1994 and 1993 .....	373,806		373,806	182,863		182,863
Inventories .....	213,134		213,134	196,996		196,996
Prepaid experience studies expenses .....	177,013		177,013	256,152		256,152
Other .....	228,107		228,107	360,984		360,984
<b>Total current assets .....</b>	<b>\$ 4,950,469</b>	<b>\$ 1,143,829</b>	<b>\$ 6,094,298</b>	<b>\$ 4,126,602</b>	<b>\$ 984,287</b>	<b>\$ 5,110,889</b>
Equipment and leasehold improvements, at cost, less allowance for depreciation and amortization of \$514,195 (\$454,521 in 1993) .....	349,631		349,631	276,414		276,414
Long-term investments .....	5,106,689		5,106,689	6,410,004		6,410,004
<b>Total assets .....</b>	<b>\$10,406,789</b>	<b>\$1,143,829</b>	<b>\$11,550,618</b>	<b>\$10,813,020</b>	<b>\$984,287</b>	<b>\$11,797,307</b>

STATEMENT OF FINANCIAL CONDITION—*Continued*  
 LIABILITIES AND MEMBERSHIP EQUITY

	JULY 31, 1994			JULY 31, 1993		
	General Fund	Restricted Fund	Total	General Fund	Restricted Fund	Total
Current Liabilities:						
Accounts payable and accrued expenses .....	\$ 1,622,806	\$ 99,297	\$ 1,722,103	\$ 1,878,182	\$ 20,356	\$ 1,898,538
Deferred revenues .....	1,818,729		1,818,729	1,847,195		1,847,195
Accrued contribution to Society of Actuaries Foundation .....	500,000		500,000			
Total current liabilities .....	3,941,535	99,297	4,040,832	3,725,377	20,356	3,745,733
Accrued rent .....				942,796		942,796
Total liabilities .....	3,941,535	99,297	4,040,832	4,668,173	20,356	4,688,529
Membership equity .....	6,465,254	1,044,532	7,509,786	6,144,847	963,931	7,108,778
Total liabilities and membership equity .....	<u>\$10,406,789</u>	<u>\$1,143,829</u>	<u>\$11,550,618</u>	<u>\$10,813,020</u>	<u>\$984,287</u>	<u>\$11,797,307</u>

See accompanying notes.

## STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN MEMBERSHIP EQUITY

	FOR THE YEAR ENDED JULY 31, 1994			FOR THE YEAR ENDED JULY 31, 1993		
	General Fund	Restricted Fund	Total	General Fund	Restricted Fund	Total
<b>Revenues:</b>						
Membership dues .....	\$ 2,940,323	\$320,416	\$ 3,260,739	\$ 2,797,485	\$295,220	\$ 3,092,705
Meeting registration fees .....	1,887,320	15,110	1,902,430	1,617,664	22,053	1,639,717
Seminar fees .....	600,299	96,345	696,644	715,368	209,570	924,938
Education and examination fees .....	6,318,608		6,318,608	6,303,911		6,303,911
Sale of publications .....	88,718	5,576	94,294	108,910	4,270	113,180
Experience studies .....	594,451		594,451	611,427		611,427
Income from allied organizations .....	305,432		305,432	273,449		273,449
Investment income .....	461,081	27,953	489,034	453,395	22,729	476,124
Contributions .....		55,325	55,325	550	79,755	80,305
Other .....	104,259		104,259	109,992		109,992
<b>Total Revenues</b> .....	<b>\$13,300,491</b>	<b>\$520,725</b>	<b>\$13,821,216</b>	<b>\$12,992,151</b>	<b>\$633,597</b>	<b>\$13,625,748</b>
<b>Operating expenses:</b>						
Salaries and related expenses .....	\$ 4,386,447		\$ 4,386,447	\$ 4,064,629		\$ 4,064,629
Printing .....	1,392,665	\$ 71,318	1,463,983	1,416,098	\$ 84,298	1,500,396
Travel and honoraria .....	2,332,600	115,140	2,447,740	2,080,132	117,987	2,198,119
Postage and mailing .....	1,191,743	75,497	1,267,240	998,889	72,095	1,070,984
Grading services/course development .....	512,744		512,744	528,879		528,879
Fellowship Admission Course and intensive seminars .....	458,749		458,749	402,810		402,810
Cost of calculators sold .....	115,230		115,230	143,734		143,734
Rent .....	605,978		605,978	569,317		569,317
Office .....	409,224	6,731	415,955	398,974	16,447	415,421
Computer .....	100,496		100,496	101,355		101,355
Public relations/strengthening profession .....	101,658		101,658	121,046		121,046
Telephone .....	129,941	8,210	138,151	113,015	4,245	117,260
Professional fees .....	257,234		257,234	204,344		204,344
Depreciation—books .....	44,988		44,988	31,980		31,980
Depreciation—equipment .....	49,758		49,758	48,299		48,299
Insurance .....	44,343		44,343	36,721		36,721
Teleconference and course development .....	15,738		15,738	106,675		106,675
Research projects .....	212,217	63,592	275,809	280,089		280,089
Experience studies .....	538,351		538,351	536,500		536,500
Other research expenses .....	12,000		12,000	11,400		11,400

STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN MEMBERSHIP EQUITY—*Continued*

	FOR THE YEAR ENDED JULY 31, 1994			FOR THE YEAR ENDED JULY 31, 1993		
	General Fund	Restricted Fund	Total	General Fund	Restricted Fund	Total
College/university initiative .....	\$ 70,758	\$ 81,732	\$ 152,490	\$ 128,328	\$ 90,067	\$ 218,395
Government employee travel .....	7,766		7,766			
Library .....	49,899		49,899	20,707		20,707
Student newsletter .....	35,321		35,321	44,604		44,604
Bulletin board .....	15,880		15,880	7,500		7,500
Actuarial Standards Board/Actuarial Board for Counseling and Discipline courses .....	5,698		5,698	(157,767)		(157,767)
International Promotional and Education Fund .....				50,000		50,000
International relations .....	23,121	16,864	39,985	6,680		6,680
Miscellaneous .....	128,569	1,040	129,609	85,655	667	86,322
Total operating expenses .....	<u>\$13,249,116</u>	<u>\$ 440,124</u>	<u>\$13,689,240</u>	<u>\$12,380,593</u>	<u>\$385,806</u>	<u>\$12,766,399</u>
Excess of revenues over operating expenses .....	\$ 51,375	\$ 80,601	\$ 131,976	\$ 611,558	\$247,791	\$ 859,349
Other income (expense):						
Contribution to Society of Actuaries Foundation .....	(500,000)		(500,000)			
Recognition of deferred rent .....	824,944		824,944			
Deferred rent shared with CCA and AAA .....	(55,912)		(55,912)			
Revenues over expenses .....	320,407	80,601	401,008	611,558	247,791	859,349
Membership equity at beginning of year .....	6,144,847	963,931	7,108,778	5,533,289	716,140	6,249,429
Membership equity at end of year .....	<u>\$ 6,465,254</u>	<u>\$1,044,532</u>	<u>\$7,509,786</u>	<u>\$6,144,847</u>	<u>\$963,931</u>	<u>\$ 7,108,778</u>

See accompanying notes.

## STATEMENT OF CASH FLOWS

	FOR THE YEAR ENDED JULY 31, 1994			FOR THE YEAR ENDED JULY 31, 1993		
	General Fund	Restricted Fund	Total	General Fund	Restricted Fund	Total
<b>Cash Flows from Operating Activities:</b>						
Revenue over expenses .....	\$ 320,407	\$ 80,601	\$ 401,008	\$ 611,558	\$247,791	\$ 859,349
Adjustments to reconcile revenue over expenses to net cash provided by operating activities:						
Depreciation and amortization .....	83,172		83,172	85,714		85,714
Accrued rent .....	( 942,796)		( 942,796)	( 117,852)		( 117,852)
Amortization and accretion of investment discounts and premiums .....	79,755		79,755	57,061		57,061
<b>Changes in certain working capital items:</b>						
Net accounts receivable .....	( 190,943)		( 190,943)	(53,609)		(53,609)
Inventory .....	(16,138)		(16,138)	171,596		171,596
Prepaid experience studies expense .....	79,139		79,139	74,630		74,630
Other current assets .....	132,877		132,877	( 121,541)		( 121,541)
Accounts payable and accrued expenses .....	244,624	78,941	323,565	509,590	2,868	512,458
Deferred revenues and advances .....	(28,466)		(28,466)	25,783		25,783
Net cash provided by (used in) operating activities .....	<u>\$ (238,369)</u>	<u>\$ 159,542</u>	<u>\$ (78,827)</u>	<u>\$1,242,930</u>	<u>\$250,659</u>	<u>\$1,493,589</u>
<b>Cash Flows from Investing Activities:</b>						
Purchase of property and equipment .....	( 156,389)		( 156,389)	( 34,156)		( 34,156)
Purchase of U.S. Government obligations .....	(2,477,885)		(2,477,885)	(3,606,797)		(3,606,797)
Proceeds from maturity of U.S. Government obligations .....	1,100,000		1,100,000	250,000		250,000
Net Cash (Used in) Investing Activities .....	<u>(1,534,274)</u>		<u>(1,534,274)</u>	<u>(3,390,953)</u>		<u>(3,390,953)</u>
Net Increase (Decrease) in Cash and Cash Equivalents .....	<u>(1,772,643)</u>	<u>159,542</u>	<u>(1,613,101)</u>	<u>(2,148,023)</u>	<u>250,659</u>	<u>(1,897,364)</u>
Cash and Cash Equivalents at Beginning of Year .....	<u>2,012,029</u>	<u>984,287</u>	<u>2,996,316</u>	<u>4,160,052</u>	<u>733,628</u>	<u>4,893,680</u>
Cash and Cash Equivalents at End of Year .....	<u>\$ 239,386</u>	<u>\$1,143,829</u>	<u>\$1,383,215</u>	<u>\$2,012,029</u>	<u>\$984,287</u>	<u>\$2,996,316</u>

See accompanying notes.

## NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Organization and Purpose.* The Society of Actuaries is an educational, research and professional membership organization primarily for actuaries in Canada and the United States. Its objectives are to advance the knowledge of actuarial science and to promote the maintenance of high standards of competence and conduct within the actuarial profession.

*Cash and Cash Equivalents.* The Society considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

*Inventories.* Inventories are stated at the lower of cost, determined on the first-in, first-out method, or market.

*Experience Studies.* Approximately annually, the Society conducts various experience studies for use by its members. Expenses in connection with the compilation of these studies are charged to a prepaid account. The following fiscal year insurance companies and other commercial employers of actuaries are assessed for these and other related expenses, at which time the prepaid account is relieved by charging expense.

*Property and Equipment.* Acquisitions, improvements and replacements of major assets are capitalized at cost. Depreciation and amortization are computed on the straight-line method based on the estimated useful lives of the assets or the terms of the leases.

*Membership Dues.* Dues are deferred and recognized as income on a pro rata basis over the Society's membership period.

## NOTE 2. INVESTMENTS

Investments, which are stated at amortized cost, consist of the following:

	AMORTIZED COST		MARKET VALUE	
	1994	1993	1994	1993
Short-term:				
U.S. Treasury notes	\$3,719,023	\$3,731,950	\$1,117,578	\$1,130,859
Long-term:				
U.S. Treasury notes	\$4,966,889	\$4,887,799	\$6,398,062	\$6,693,625
Corporate bonds	11,945	11,463	11,942	12,275
S&P Depository Receipts	109,266	110,100		
Toronto 35 Index Fund	18,589	19,050		
	<u>5,106,689</u>	<u>5,028,412</u>	<u>6,410,004</u>	<u>6,705,900</u>
	<u>\$8,825,712</u>	<u>\$8,760,362</u>	<u>\$7,527,582</u>	<u>\$7,836,759</u>

## NOTE 3. MEMBERSHIP EQUITY

*General Fund.* General Fund membership equity at July 31, 1994 and 1993 is as follows:

	JULY 31,	
	1994	1993
General Fund:		
Board designated for research development	\$ 93,112	\$ 93,112
Unrestricted, undesignated	<u>6,372,142</u>	<u>6,051,735</u>
	\$6,465,254	\$6,144,847

*Restricted Fund.* The Society has restricted funds for contributions for educational awards, a minority recruitment program and Special Interest Sections. Disbursements to support these programs are made upon the authorization of the committee or section chairperson. The fund balances at July 31, 1994 and 1993 of the various restricted funds are as follows:

	JULY 31,	
	1994	1993
Educational Award Fund	\$ 15,476	\$ 15,576
Minority recruitment	<u>47,984</u>	<u>71,072</u>
	63,460	86,648
Special Interest Sections:		
Actuary of the Future	12,623	3,864
Computer Science	57,243	45,301
Education and Research	5,934	7,439
Financial Reporting	114,609	94,036
Futurism	19,299	22,146
Health	184,536	168,889
International	22,125	24,040
Investment	145,208	111,511
Nontraditional Marketing	35,051	42,371
Pension	131,283	119,629
Product Development	164,165	162,868
Reinsurance	79,535	71,450
Smaller Insurance Company	<u>9,461</u>	<u>3,739</u>
	981,072	877,283
Total	\$1,044,532	\$963,931



## NOTE 4. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

A summary of equipment and leasehold improvements at July 31 follows:

	1994	1993
Office equipment	\$465,724	\$406,447
Computer equipment	321,999	289,499
Truck	20,165	26,231
Leasehold improvements	55,938	8,758
	<u>863,826</u>	<u>730,935</u>
Less accumulated depreciation and amortization	<u>514,195</u>	<u>454,521</u>
	\$349,631	\$276,414

## NOTE 5. LEASE COMMITMENTS

The Society occupies office space under a renegotiated lease agreement through 2008 that includes an agreed upon 2.7% increase per year and escalation clauses to cover future increases in operating costs above base-year costs. The Society also leases warehouse space under a lease agreement through 1998 that includes an agreed upon 2% increase per year.

As of July 31, 1994, future minimum rental commitments, exclusive of executory costs such as real estate taxes and operating expenses, for these noncancelable leases are as follows:

1995	\$ 384,000
1996	394,000
1997	405,000
1998	416,000
1999	400,000
2000-2008	<u>4,137,000</u>
	\$6,136,000

The prior lease provided for a period of free rent through 1993, the effects of which were being recognized over the lease term on a straight-line basis. Effective with the signing of the new lease, the balance of the deferred rent, \$824,944, was taken into income. \$55,912 will be returned to the Conference of Consulting Actuaries (CCA) and the American Academy of Actuaries (AAA), which utilize space within the Society office.

## NOTE 6. RETIREMENT PLAN

All employees of the Society, subject to minimum eligibility requirements, are covered by a tax-deferred annuity program. As of January 1, 1993, the Society reduced its contribution from 15% to 10% of the employees' basic salaries, up to the maximum allowable under IRS guidelines. The employees may contribute amounts up to the limitation as defined in the Internal Revenue Code. Contributions are

applied to purchase tax-deferred annuity contracts from insurance companies. The Society's policy is to fund retirement costs accrued. Pension expense for the years ended July 31, 1994 and 1993 was \$303,719 and \$335,537, respectively.

#### NOTE 7. INCOME TAXES

The Society is qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Society incurred no income tax liability as a result of its unrelated business activities in 1994 or 1993.

#### NOTE 8. RESEARCH COMMITMENTS

The Society has outstanding commitments of \$218,500 to outside individuals or organizations for research projects in progress or about to begin. Of this amount, various sections of the Society have agreed to contribute up to \$72,000 toward these projects. The Society has approximately \$93,000 in the Research Development Fund available for these commitments.

#### NOTE 9. SOCIETY OF ACTUARIES FOUNDATION

The Society of Actuaries Foundation (Foundation) was created July 25, 1994. As a pledge of support towards continuing education and research, the Society has approved and accrued an unconditional contribution of \$500,000 as seed money for the Foundation. The Society has also made a commitment to provide a dollar-for-dollar matching funds challenge up to an additional \$500,000.

All administrative costs of the Foundation are currently provided for in the Society's budget.