

**TRANSACTIONS OF SOCIETY OF ACTUARIES  
1995 VOL. 47**

**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying statement of financial condition of the Society of Actuaries as of July 31, 1995 and 1994, 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, 1995 and 1994, 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, 1995

FINANCIAL REPORT  
STATEMENT OF FINANCIAL CONDITION  
ASSETS

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	July 31, 1995			July 31, 1994		
	General Fund	Restricted Fund	Total	General Fund	Restricted Fund	Total
Current Assets:						
Cash and cash equivalents .....	\$ 996,265	\$1,222,107	\$ 2,218,372	\$ 239,386	\$1,143,829	\$ 1,383,215
Investments .....	1,602,873		1,602,873	3,719,023		3,719,023
Accounts receivable, less allowance for doubtful accounts of \$35,000 for 1995 and 1994 .....	775,891		775,891	373,806		373,806
Inventories .....	304,685		304,685	213,134		213,134
Prepaid experience studies expense .....	158,836		158,836	177,013		177,013
Other .....	282,984		282,984	228,107		228,107
Total Current Assets .....	<u>4,121,534</u>	<u>1,222,107</u>	<u>5,343,641</u>	<u>4,950,469</u>	<u>1,143,829</u>	<u>6,094,298</u>
Equipment and leasehold improvements, at cost, less allowance for depreciation and amortization of \$520,038 (\$514,195 in 1994) .....	442,508		442,508	349,631		349,631
Long-term investments .....	5,819,876		5,819,876	5,106,689		5,106,689
Total Assets .....	<u>\$10,383,918</u>	<u>\$1,222,107</u>	<u>\$11,606,025</u>	<u>\$10,406,789</u>	<u>\$1,143,829</u>	<u>\$11,550,618</u>

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

	July 31, 1995			July 31, 1994		
	General Fund	Restricted Fund	Total	General Fund	Restricted Fund	Total
Current Liabilities:						
Accounts payable and accrued expenses .....	\$ 2,069,612	\$ 98,567	\$ 2,168,179	\$ 1,622,806	\$ 99,297	\$ 1,722,103
Deferred revenues .....	2,009,294		2,009,294	1,818,729		1,818,729
Accrued contribution to Society of Actuaries Foundation .....				500,000		500,000
Total current liabilities .....	4,078,906	98,567	4,177,473	3,941,535	99,297	4,040,832
Membership equity .....	6,305,012	1,123,540	7,428,552	6,465,254	1,044,532	7,509,786
Total Liabilities and Membership Equity .....	<u>\$10,383,918</u>	<u>\$1,222,107</u>	<u>\$11,606,025</u>	<u>\$10,406,789</u>	<u>\$1,143,829</u>	<u>\$11,550,618</u>

See accompanying notes.

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

	FOR THE YEAR ENDED JULY 31, 1995			FOR THE YEAR ENDED JULY 31, 1994		
	General Fund	Restricted Fund	Total	General Fund	Restricted Fund	Total
<b>Revenues:</b>						
Membership dues .....	\$ 3,265,679	\$346,828	\$ 3,612,507	\$ 2,940,323	\$320,416	\$ 3,260,739
Continuing education fees .....	2,545,602	127,686	2,673,288	2,487,619	111,455	2,599,074
Education and examination fees .....	6,635,025		6,635,025	6,318,608		6,318,608
Sale of publications .....	70,678	5,251	75,929		5,576	94,294
Experience studies .....	577,363		577,363	594,451		594,451
Income from allied organizations .....	261,923		261,923	305,432		305,432
Investment income .....	532,636	43,115	575,751	461,081	27,953	489,034
Contributions .....		62,865	62,865		55,325	55,325
Other .....	115,690		115,690	104,259		104,259
<b>Total Revenues .....</b>	<b>14,004,596</b>	<b>585,745</b>	<b>14,590,341</b>	<b>13,300,491</b>	<b>520,725</b>	<b>13,821,216</b>
<b>Operating expenses:</b>						
Salaries and related expenses .....	4,791,661		4,791,661	4,386,447		4,386,447
Printing .....	1,394,993	70,074	1,465,067	1,392,665	71,318	1,463,983
Travel and honoraria .....	2,154,781	106,409	2,261,190	2,207,025	115,140	2,322,165
Postage and mailing .....	1,139,778	88,343	1,228,121	1,191,743	75,497	1,267,240
Grading services/course development .....	533,200		533,200	512,744		512,744
Exam Centers .....	144,855		144,855	141,313		141,313
Fellowship Admission Course and intensive seminars .....	435,919		435,919	458,749		458,749
Cost of calculators sold .....	108,898		108,898	115,230		115,230
Rent .....	648,582		648,582	605,978		605,978
Office stationery, supplies and maintenance .....	143,729	7,282	151,011	96,400		96,400
Program supplies and services .....	326,976	9,993	336,969	312,824	6,731	319,555
Computer .....	136,214		136,214	100,496		100,496
Public relations/strengthening profession .....	46,905		46,905	101,658		101,658
Telephone .....	143,194	7,831	151,025	129,941	8,210	138,151
Professional fees .....	167,561		167,561	257,234		257,234
Depreciation—books .....	40,778		40,778	44,988		44,988
Depreciation—equipment .....	52,303		52,303	49,758		49,758
Insurance .....	59,931		59,931	44,343		44,343
Wharton seminar .....	104,183		104,183			
Research projects .....	262,261	70,583	332,844	212,217	63,592	275,809

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

	FOR THE YEAR ENDED JULY 31, 1995			FOR THE YEAR ENDED JULY 31, 1994		
	General Fund	Restricted Fund	Total	General Fund	Restricted Fund	Total
Experience studies	\$ 474,935	\$	\$ 474,935	\$ 538,351	\$	\$ 538,351
Other research expenses	12,500		12,500	12,000		12,000
College/university initiative	72,628	100,049	172,677	70,758	81,732	152,490
Government employee travel	6,911		6,911	7,766		7,766
Library	42,305		42,305	49,899		49,899
Student Newsletter	25,734		25,734	35,321		35,321
Bulletin Board	12,693	3,750	16,443	15,880		15,880
Actuarial Standards Board/Actuarial Board for Counseling and Discipline courses	(475)		(475)	5,698		5,698
International relations	22,674		22,674	23,121	16,864	39,985
SOA Foundation expenses	269,226		269,226			
Administration fee		42,057	42,057			
Miscellaneous	165,342	366	165,708	128,569	1,040	129,609
<b>Total operating expenses</b>	<b>13,941,175</b>	<b>506,737</b>	<b>14,447,912</b>	<b>13,249,116</b>	<b>440,124</b>	<b>13,689,240</b>
Revenues over operating expenses	63,421	79,008	142,429	51,375	80,601	131,976
Other income (expense):						
Contribution to Society of Actuaries Foundation	(53,663)		(53,663)	(500,000)		(500,000)
Sales tax assessment	(170,000)		(170,000)			
Recognition of deferred rent				824,944		824,944
Deferred rent shared with CCA and AAA				(55,912)		(55,912)
Revenues over (under) expenses	(160,242)	79,008	(81,234)	320,407	80,601	401,008
Membership equity, beginning of the year	6,465,254	1,044,532	7,509,786	6,144,847	963,931	7,108,778
Membership equity, end of the year	<u>\$ 6,305,012</u>	<u>\$1,123,540</u>	<u>\$ 7,428,552</u>	<u>\$ 6,465,254</u>	<u>\$1,044,532</u>	<u>\$ 7,509,786</u>

See accompanying notes.

## STATEMENT OF CASH FLOWS

	FOR THE YEAR ENDED JULY 31, 1995			FOR THE YEAR ENDED JULY 31, 1994		
	General Fund	Restricted Fund	Total	General Fund	Restricted Fund	Total
<b>Cash flows from Operating Activities:</b>						
Revenue over (under) expenses .....	\$ (160,242)	\$ 79,008	\$ (81,234)	\$ 320,407	\$ 80,601	\$ 401,008
Adjustments to reconcile revenue over (under) expenses to net cash provided by operating activities:						
Depreciation and amortization .....	99,695		99,695	83,172		83,172
Accrued rent .....				(942,796)		(942,796)
Loss on sale of equipment .....	1,184		1,184			
Amortization and accretion of investment discounts and premiums .....	46,369		46,369	79,755		79,755
<b>Changes in certain working capital items:</b>						
Net accounts receivable .....	(402,085)		(402,085)	(190,943)		(190,943)
Inventory .....	(91,551)		(91,551)	(16,138)		(16,138)
Prepaid experience studies .....	18,177		18,177	79,139		79,139
Other current assets .....	(54,877)		(54,877)	132,877		132,877
Accounts payable and accrued expenses .....	(53,194)	(730)	(53,924)	244,624	78,941	323,565
Deferred revenues and advances .....	190,565		190,565	(28,466)		(28,466)
Net cash provided by (used in) operating activities .....	<u>(405,959)</u>	<u>78,278</u>	<u>(327,681)</u>	<u>(238,369)</u>	<u>159,542</u>	<u>(78,827)</u>
<b>Cash flows from Investing Activities:</b>						
Purchase of property and equipment .....	(195,641)		(195,641)	(156,389)		(156,389)
Proceeds from sale of equipment .....	1,885		1,885			
Investment purchases .....	(2,343,406)		(2,343,406)	(2,477,885)		(2,477,885)
Proceeds from maturity of investments .....	3,700,000		3,700,000	1,100,000		1,100,000
Net cash provided by (used in) investing activities .....	<u>1,162,838</u>		<u>1,162,838</u>	<u>(1,534,274)</u>		<u>(1,534,274)</u>
Net increase (decrease) .....	756,879	78,278	835,157	(1,772,643)	159,542	(1,613,101)
Cash and cash equivalents, beginning of the year ..	239,386	1,143,829	1,383,215	2,012,029	984,287	2,996,316
Cash and cash equivalents, end of the year .....	<u>\$ 996,265</u>	<u>\$1,222,107</u>	<u>\$ 2,218,372</u>	<u>\$ 239,386</u>	<u>\$1,143,829</u>	<u>\$ 1,383,215</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:

	1995		1994	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Short-term:				
United States Treasury notes	\$1,600,873	\$1,629,733	\$3,719,023	\$3,731,950
Corporate bond	2,000	2,000		
	<u>1,602,873</u>	<u>1,631,733</u>	<u>3,719,023</u>	<u>3,731,950</u>
Long-term:				
United States Treasury notes	\$5,457,810	\$5,507,758	\$4,966,889	\$4,887,799
Corporate bond	9,948	9,450	11,945	11,463
S&P Depository Receipts	292,609	347,975	109,266	110,100
Toronto 35 Index Fund	59,509	63,450	18,589	19,050
	<u>5,819,876</u>	<u>5,928,633</u>	<u>5,106,689</u>	<u>5,028,412</u>
	<u>\$7,422,749</u>	<u>\$7,560,366</u>	<u>\$8,825,712</u>	<u>\$8,760,362</u>

## NOTE 3. MEMBERSHIP EQUITY

*General Fund.* General Fund membership equity at July 31, 1995 and 1994 is as follows:

	JULY 31,	
	1995	1994
General Fund:		
Board designated for research development	\$ 93,112	\$ 93,112
Unrestricted, undesignated	<u>6,211,900</u>	<u>6,372,142</u>
	<u>\$6,305,012</u>	<u>\$6,465,254</u>

*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, 1995 and 1994 of the various restricted funds are as follows:

Educational Award Fund	\$ 15,076	\$ 15,476
Minority recruitment	28,240	47,984
	<u>43,316</u>	<u>63,460</u>
Special interest sections:		
Actuary of the Future	19,939	12,623
Computer science	64,360	57,243
Education and research	7,391	5,934
Financial reporting	169,714	114,609
Futurism	24,779	19,299
Health insurance	188,243	184,536
International	21,584	22,125
Investment	146,380	145,208
Nontraditional marketing	35,036	35,051
Pension	151,799	131,283
Product development	172,457	164,165
Reinsurance	66,337	79,535
Smaller Insurance Company	12,205	9,461
	<u>1,080,224</u>	<u>981,072</u>
Total	<u>\$1,123,540</u>	<u>\$1,044,532</u>



## NOTE 4. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

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

	1995	1994
Office equipment	\$491,471	\$465,724
Computer equipment	394,972	321,999
Truck	20,165	20,165
Leasehold improvements	55,938	55,938
	<u>962,546</u>	<u>863,826</u>
Less accumulated depreciation and amortization	<u>520,038</u>	<u>514,195</u>
	<u>\$442,508</u>	<u>\$349,631</u>

## 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, 1995, future minimum rental commitments, exclusive of executory costs such as real estate taxes and operating expenses, for these noncancelable leases are as follows:

1996	\$ 394,000
1997	405,000
1998	416,000
1999	400,000
2000	411,000
2001-2008	<u>3,726,000</u>
	\$5,752,000

The prior lease provided for a period of free rent through 1993, the effects of which were 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 in 1994, and \$55,912 was returned to the Conference of Consulting Actuaries (CCA) and the American Academy of Actuaries (AAA) that utilize space within the Society's office.

## NOTE 6. RETIREMENT PLAN

All employees of the Society, subject to minimum eligibility requirements, are covered by a tax deferred annuity program. The Society contributes 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, 1995 and 1994 was \$349,172 and \$303,719, respectively.

## NOTE 7. INCOME TAXES

The Society is qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. During 1995, the Society paid and expensed \$12,429 for unrelated business income taxes. The income tax liability for 1994 amounted to \$3,429 and was paid during 1995.

## NOTE 8. RESEARCH COMMITMENTS

The Society has outstanding commitments of \$469,300 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 \$100,900 toward these projects.

NOTE 9. SOCIETY OF ACTUARIES FOUNDATION  
AND ACTUARIAL EDUCATION AND RESEARCH FUND (AERF)

The Society of Actuaries Foundation (Foundation) was created July 25, 1994. During the fiscal year ending July 31, 1994, the Society had approved and accrued an unconditional contribution of \$500,000 as seed money for the Foundation as a pledge of support towards continuing education and research. The Society has also made a commitment to provide a dollar-for-dollar matching funds challenge up to an additional \$500,000. During 1995, the Society matched \$53,663 in contributions to the Foundation.

All administrative costs of the Foundation are currently provided for in the Society's budget. In 1995, the Society paid direct expenses of \$269,226 on behalf of the Foundation and allocated expenses of \$179,700.

The Society also allocated expenses of \$21,300 for staff efforts to support AERF. Allocated expenses, in both cases, consist mostly of salary, fringe benefits and occupancy costs. The Society did not allocate any expenses to the Foundation or AERF in 1994.

## NOTE 10. SALES TAX AUDIT

The Illinois Department of Revenue has completed a sales and use tax audit of the Society for the period July 1981 through December 1994. As a consequence of this audit, the Department has proposed a deficiency against the Society for its sales of publications and other items. The Society disagrees with the deficiency findings and intends to contest the proposed assessment with the Department. If the maximum deficiency, which has been accrued, is upheld, the tax liability, together with interest and penalties, would total approximately \$170,000.

At this time, it is impossible to predict whether a negotiated settlement will occur, or the likelihood of success if there is an appeal to the state courts.

## NOTE 11. NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board has issued *Statements Number 116 and 117*. *Statement 116* is entitled "Accounting for Contributions Received and Contributions Made" and will require that contributions received, including unconditional promises to

give, are recognized on the accrual basis of accounting. *Statement 117* is entitled "Financial Statements of Not-for-Profit Organizations" and will require the financial statements to be reformatted to focus on the entity as a whole, rather than by funds; and to present balances and transactions according to the existence or absence of donor-imposed restrictions. The requirements of these statements will need to be applied no later than fiscal year July 31, 1996. The effects of adopting these statements have not yet been determined.

#### NOTE 12. RECLASSIFICATIONS

Certain items in the prior-year financial statements have been reclassified to conform with the current-year presentation. These reclassifications had no effect on net income or membership equity.

