THE ANNUAL INSIDE PUBLIC ACCOUNTING NATIONAL BENCHMARKING REPORT

2015 survey and analysis conducted by: The Platt Group / INSIDE Public Accounting
The Independent Gold Standard of Accounting Firm Benchmarking Since 1990

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APPENDIX II

The 2014-15 INSIDE Public Accounting Annual Survey and Analysis of Firms Questionnaire
PREFACE

The annual INSIDE Public Accounting National Benchmarking Report is one of the most complete, independent, up-to-date sets of economic and management statistics available about the accounting profession.

“Without change there is no innovation, creativity or incentive for improvement. Those who initiate change will have a better opportunity to manage the change that is inevitable.”

– William Pollard

IPA’s Methodology: Each survey is reviewed and examined. If data appears to be incorrect or questionable, we resolve issues with the reporting firm. While we do everything possible to ensure accuracy, the participating firms bear the ultimate responsibility for providing accurate data.

Throughout this report, all tables are presented in revenue bands, geographic regions, and unique to IPA benchmarking, the Best of the Best firms. IPA does not provide data on any individual firm.

PUBLISHERS’ NOTE

Over the years, the IPA National Benchmarking Report has grown, with more than 500 firms participating annually. A significant portion of the new participants are in the under-$14 million revenue category. Therefore, any “Non-Big 4” averages presented in graphs include a higher percentage of smaller firms than in previous years. The most accurate “apples-to-apples” comparisons will always be in the Benchmarking Report tables, which segment all firms by revenue bands, thereby eliminating any dilution of more general averages because of the participation of a larger number of smaller firms.

TERMS AND DEFINITIONS

Non-Big 4: This category includes all participating firms and includes all national firms, but excludes Big 4 firms.
Averages: The averages included in this report are averages of data supplied by survey participants. In some instances, the averages may not appear to total correctly; this is a function of rounding. As participation continues to grow, IPA is collecting data from a larger number of firms under $14 million than ever before. This provides a rich data set that is fully presented and analyzed in the IPA National Benchmarking Report tables. All data excludes the Big 4.

>$75 Million: Includes all participating national firms, and excludes Big 4 firms.

THE IPA 100 AND IPA 200

Information gathered from the IPA Annual Survey and Analysis of Firms (Appendix II) is used to develop the IPA 100, a ranking of America’s 100 largest firms, which is highlighted annually in the August issue of INSIDE Public Accounting. In September 2015, IPA named the IPA 200, those firms ranking Nos. 101-200 in the U.S. Appendix I.

THE IPA BEST OF THE BEST

Following analysis of all participating firms’ survey data, IPA names “Best of the Best” firms. Articles detailing the Best of the Best designation, regional breakouts and additional analyses appear annually in the September issue, Appendix I.

THE IPA NATIONAL BENCHMARKING REPORT

The IPA National Benchmarking Report offers a more detailed presentation of results from all survey participants. Data in the report may differ slightly from that previously reported in IPA’s newsletters due to the fact that firms continue submitting data and clarifications past each of the monthly newsletter deadlines. To be most useful, the report must provide relevant, timely information. The Platt Group invites you as a reader and/or participant to call or write us with your candid critique, suggestions and questions at (317) 733-1920 or kplatt@plattgroupllc.com. The IPA National Benchmarking Report is published annually. It is one of the longest-running, most up-to-date, independent reports on the accounting profession.

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A QUARTER OF A CENTURY PROVIDING BEST PRACTICES TO THE PROFESSION

Dear Readers,

My how time flies. Once again, we extend our gratitude to the more than 500 firms that participated in the 25th annual Survey and Analysis of Firms. Managing partners, firm administrators, controllers, office managers and others all played a part in gathering the required data for the survey. We appreciate your efforts and flexibility, your input and suggestions for improvement, and your willing cooperation in ensuring accurate and timely submissions.

We also thank the staffs of accounting associations for their support and efforts to compile the annual report. Their selfless commitment to their members and the profession offers the opportunity for benchmarking against hundreds of CPA firms across the country.

Maintaining confidentiality is a responsibility we at INSIDE Public Accounting take very seriously. That uncompromising commitment is the foundation of our business, and we appreciate the trust you have placed in our company.

We hope you will find significant value in this 25th IPA National Benchmarking report.

Please remember IPA can also serve as a resource to you as you gather your management team to review benchmarking and performance improvement opportunities. Consider inviting IPA to make a customized presentation at your next partner retreat. IPA can delve deeper into the trends and provide detailed information on specific areas of interest.

We look forward to continuing to serve you and the profession, and we encourage you to always “expect better” in the future.

Please feel free to contact us at mplatt@plattgroupllc.com or kplatt@plattgroupllc.com to see how the lessons learned from hundreds of firms can be used to improve performance at your firm.

Mike & Kelly Platt
SUMMARY HIGHLIGHTS

Publishers’ Note: Unless otherwise noted, all commentary relates to non-Big 4 firms, but includes all participating national firms. Not all firms chose to answer all questions. Percentages cited in the following pages/tables are based on firms that answered those specific questions. Number of responses indicated on many of the tables/graphs relates to one or more metrics discussed on that page. The terms “fees” and “revenues” are interchangeable.

OVERVIEW

This 25th anniversary edition of the award-winning IPA National Benchmarking Report reveals a growing list of favorable metrics, as fading memories of the recession get further away in our collective rear-view mirror.

But challenges remain ahead as firms navigate uncharted territory – addressing many of the overarching trends affecting partnerships, business models, demographics, client service, technology innovations and much more.

The universe of firms that participated in the IPA Survey and Analysis of Firms this year includes the following:

150 Firms above $20 Million
148 Firms $10 Million - $20 Million
125 Firms $5 Million - $10 Million
104 Firms under $5 Million

Details of the quick headlines below are included throughout this Summary, and over 80 pages of tables and graphs in the IPA National Benchmarking Report provide details based on firm size and region.

Creating a Pathway Forward To The “New Reality”

- Top-line growth in net revenue for all but the smallest firms increased 4.5% to 7.9%, on average. Much of this new growth continues to come from non-traditional sources, with increases in business advisory services, litigation support services and wealth management leading the way.
Merger and acquisition activity continues to play an important role in top-line growth, adding 2% to net revenue growth, on average, for all participating firms. One in five firms reported at least one acquisition in the last fiscal year. Among the largest firms of more than $50 million, that number increases to 46%.

Bottom-line growth in net income was also up – from 4% to 10% on average across all revenue bands.

Average net income per equity partner (NIPEP) for all participating firms rose 3.5% to $472,329. This metric is greatly affected by the size of the firm. The average NIPEP for the 150 participating firms above $20 million is $615,000, and for the 92 participating firms under $5 million, NIPEP was just under $350,000.

Profit margins are holding steady – with a slight uptick this year to 30.2% for all participating firms – despite a continued rise in personnel costs as a percentage of revenue, which continue to increase annually for most revenue bands. Merit increases for staff are rising at a higher rate than billing rate increases, putting pressure on professional staff for greater production.

Average professional staff compensation is actually going down across some revenue bands, due in part to turnover at the most experienced levels, resulting in a higher percentage of less experienced (lower paid) staff as a percentage of the total.

Partner charge hours are on the rise for all but the largest firms, due in part to staff shortages. In many firms, partners are spending too much time getting projects out the door. (Anecdotally, at conferences around the country, when IPA asks partners what percentage of their time is spent doing “partner-level work,” the unscientific poll reveals the answer to be less than 50%.)

The IPA 100 continues its long trend of reduced charge hours per partner – now below 1,000 hours a year – as management duties, staff training, business development and higher leverage dominate their environment.

IPA is beginning to see more firms stop tracking traditional work hours, opting instead to focus on charge hour budgets. This is in line with the changing nature of the workplace, as the majority of firms adopt flextime schedules (85%) and telecommuting (66%) options for staff.

Regardless of the challenges they face, firm leaders continue to look for new paths forward to improve their metrics and create valuable enterprises that provide partners, clients and staff with opportunities to improve.
INCOME/REVENUE

Top-Line Growth: The Heartbeat Of The Profession

It wasn’t too long ago that the number of firms that contracted outnumbered the number that expanded. Thankfully, for the most part, those days are behind us. Today, for every firm that has contracted organically, 5.4 firms have grown in the positive direction.

In each revenue band, double-digit organic growth was achieved by some – in rare cases exceeding 20% growth – underscoring bright opportunities for the future.

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REGIONAL SNAPSHOT

The following data is compiled from all participating firms, highlighting growth, turnover and compensation across the United States. The full IPA National Benchmarking Report contains more detailed comparisons based on firm size, Best of the Best and geographic location.

---

**WEST**
- Organic Revenue Growth: 5.8%
- Revenue per Employee: $182,292
- Organic Income Growth: 7.9%
- Professional Staff Turnover: 12.4%
- 0-2 Years' Experience Compensation: $51,584
- Average Professional Staff Compensation: $77,452

**NORTHEAST**
- Organic Revenue Growth: 3.6%
- Revenue per Employee: $183,614
- Organic Income Growth: 2.9%
- Professional Staff Turnover: 11.6%
- 0-2 Years' Experience Compensation: $51,167
- Average Professional Staff Compensation: $74,018

**GREAT LAKES**
- Organic Revenue Growth: 4.9%
- Revenue per Employee: $168,020
- Organic Income Growth: 3.1%
- Professional Staff Turnover: 12.0%
- 0-2 Years' Experience Compensation: $48,444
- Average Professional Staff Compensation: $67,093

**GREAT PLAINS**
- Organic Revenue Growth: 7.9%
- Revenue per Employee: $169,225
- Organic Income Growth: 13.1%
- Professional Staff Turnover: 13.7%
- 0-2 Years' Experience Compensation: $51,167
- Average Professional Staff Compensation: $71,281

**SOUTHEAST**
- Organic Revenue Growth: 4.6%
- Revenue per Employee: $165,606
- Organic Income Growth: 5.0%
- Professional Staff Turnover: 12.4%
- 0-2 Years’ Experience Compensation: $50,633
- Average Professional Staff Compensation: $79,899
Changing Service Mix Among The Largest Firms

IPA has spoken with a few MPs of the largest 200 firms in the country recently who say they are “exploring a scenario” that may involve getting out of the assurance business altogether. These are by far a tiny minority of firms. The idea is dismissed outright by most firm leaders, who say it is “crazy” to consider getting out of the auditing business.

“Having an annuity practice may not look too exciting when consulting projects are in demand, but it sure looks good when things start getting tight,” says one MP of an IPA Best of the Best firm.

Whatever the future looks like, the numbers are showing that the service mix is changing in the largest firms. The percentage of revenue from accounting and auditing is decreasing, and the percentage of total revenue from consulting is increasing rapidly.

Source: INSIDE Public Accounting / Copyright ©2015 INSIDE Public Accounting www.insidepublicaccounting.com
**NICHES**

Real estate, manufacturing / distribution and non-profits were the most frequently cited as one of the top three niches of participating firms, with over 25% of firms claiming these as among their largest niche areas.

The following graph identifies the various niches, and the percentages of all participating firms that identified those niches as among their three largest.

<table>
<thead>
<tr>
<th>Niche</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate</td>
<td>32%</td>
</tr>
<tr>
<td>Manufacturing / Distribution</td>
<td>30%</td>
</tr>
<tr>
<td>Not for Profit</td>
<td>27%</td>
</tr>
<tr>
<td>Construction</td>
<td>21%</td>
</tr>
<tr>
<td>Health Care</td>
<td>20%</td>
</tr>
<tr>
<td>Governmental</td>
<td>16%</td>
</tr>
<tr>
<td>High Net Worth Individuals</td>
<td>10%</td>
</tr>
<tr>
<td>Professional Service Firms</td>
<td>10%</td>
</tr>
<tr>
<td>Family-Owned Business</td>
<td>8%</td>
</tr>
<tr>
<td>Financial Services / Wealth Management</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: INSIDE Public Accounting www.insidepublicaccounting.com
Profit Margins: Have We Turned The Corner?

The trajectory for average growth in profit margin (net income as a percentage of net revenue) from 2014 to 2015 is looking a little bit better, with a slight increase for all but firms in the $5 million to $15 million group.

Firm leaders have been struggling to boost average profit margins to regain some of the ground lost after the recession. Increased staff costs, health care costs and pressure on fees have taken their toll – specifically on the IPA 100 firms.

It’s too early to tell if profit margins have bottomed out – an uptick among the 200 largest firms does not indicate a trend – but it is a healthy sign that at least for this year, the decline in profit margins is not continuing.
“Fully Loaded” Net Income As A Percentage Of Net Revenue Reveals A Clearer Look At Profitability

Traditionally, there are multiple ways of looking at profitability. All have merit, and all have nuances. A popular measure of profitability is comparing firms with the highest profit margins – net income before partner distributions divided by net revenue.

A firm with a high profit margin is certainly one to keep an eye on, but be aware that leverage will have a significant impact on the relevance of the metric. Low leverage firms – in which equity partners make up a higher percentage of total personnel and often a higher percentage of total charge hours – will have higher profit margins because in the calculation, the cost of their labor is essentially nothing.

A “fully loaded” profit margin includes a flat $200,000 labor cost to the firm per equity partner. We can then look at profitability after these uniform costs are included, and get a better sense of those firms with truly the highest margins.

The 2015 IPA National Benchmarking Report provides more detailed revenue band and geographic comparisons, but the table below will give the reader a general understanding of the averages of different sized firms, with more comparable “fully loaded” profit margins and net income per charge hour.

<table>
<thead>
<tr>
<th>Firm Size</th>
<th>Average Net Income as a Percentage of Net Revenue (Profit Margin)</th>
<th>Average “Fully Loaded” Profit Margin (after expending $200,000 per equity partner for labor)</th>
<th>Average Net Income Per Charge Hour</th>
<th>Average “Fully Loaded” Net Income per Charge Hour (after expending $200,000 per equity partner for labor)</th>
</tr>
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<tr>
<td>IPA 100</td>
<td>27.2%</td>
<td>17.9%</td>
<td>$50.02</td>
<td>$33.69</td>
</tr>
<tr>
<td>IPA 200</td>
<td>29.9%</td>
<td>17.6%</td>
<td>$50.07</td>
<td>$30.74</td>
</tr>
<tr>
<td>$5 - $15M</td>
<td>29.8%</td>
<td>14.3%</td>
<td>$45.39</td>
<td>$22.62</td>
</tr>
<tr>
<td>&lt; $5M</td>
<td>33.2%</td>
<td>10.7%</td>
<td>$47.48</td>
<td>$15.50</td>
</tr>
<tr>
<td>Best of the Best</td>
<td>38.9%</td>
<td>30.5%</td>
<td>$77.96</td>
<td>$61.38</td>
</tr>
</tbody>
</table>

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A Perspective On Net Revenue, Net Income Per Charge Hour

The previous section introduced the concept of a “Fully Loaded Profit Margin” metric, which takes into consideration a flat $200,000 expense to the firm for each equity partner’s labor.

This new metric is designed to more appropriately demonstrate profitability because traditional metrics incorrectly assume that the cost of partner labor is zero.

Here, we extend that discussion to look at the effects on the IPA 100 and IPA 200 of the “Fully Loaded” income per charge hour (the Y axis on the graph below), which reflects the net income contribution to the firm for every hour charged, after accounting for a base labor rate of $200,000 per equity partner. The X axis shows net revenue per charge hour, and bubble size represents the relative net revenue of the firm.

A large cluster of firms shows a “Fully Loaded” Net Income per Charge Hour between $15 and $30, with only about 10% above $50 per hour. (Note: Some IPA 100 firms are not shown on this graph because their revenue per charge hour exceeds the $300 maximum that was selected for this demonstration. Not all IPA 100 firms provided all information needed.)

The 2015 IPA 100

Net Revenue and “Fully Loaded” Net Income Per Charge Hour
The following graph shows the distribution of the IPA 200 when looking at both net revenue per charge hour and fully loaded net income per charge hour – both of which clearly are affected by geography and practice mix. Again, bubble size represents the relative net revenue of the firm.

The 2015 IPA 200

Net Revenue and “Fully Loaded” Net Income Per Charge Hour

Looking at the distribution of values of the IPA 200, we see a traditional clustering of firms with some outliers on the extremes of both net revenue per charge hour and fully loaded net income per charge hour. The 75% of the IPA 200 in the middle of the “pack” show net revenue per charge hour between $125 and $200, and a “fully loaded” net income per charge hour between $15 and $55.

At the higher end of the scale, four firms show a fully loaded net income per charge hour in the $60-$80 range, one firm is approaching $100, and one firm at $130 net income (after partner costs) per charge hour, is not shown on the graph.
Net Income Per Equity Partner

Over the last few years, average net income per equity partner (NIPEP) has been rising steadily for firms over $50 million, and for firms under $5 million. After some down years, $10 million - $50 million firms are gaining traction on this metric. As a group, the $5 million - $10 million firms are the ones that are seemingly “stuck” in neutral. Often these firms are the ones struggling to break through to the next level, with many of them dominated by an aging partner group, too large to be as nimble as the much smaller firms, and not large enough to invest the resources needed to grow and expand like firms of much greater size.

The proper management of the main components of NIPEP – leverage, utilization, realization, billing rate and margin – has led to the steady increase among most groups this year, resulting in 60% of firms this year experiencing an increase in average net income per equity partner.
PARTNER TRENDS

It has been said that partnerships make great tax structures, but often make for complicated business structures. Nevertheless, firms pay close attention to trends affecting partner performance, compensation and overall makeup of the partnership.

The IPA National Benchmarking Report has tracked dozens of partner-related metrics for decades, watching the changing face – and nature – of partners and partnerships across the profession. Some key observations from this year’s report:

- Average charge hours per equity partner remain steady at 1,074 (1,072 last year).
- Sixty-seven percent of all firms have non-equity partners, compared to 57.6% in 2010.
- Average equity partner compensation is 2.31 times the average non-equity partner compensation.
- The highest-paid equity partner in firms above $75 million earns on average 8.6 times the lowest-paid equity partner, which is down from 9.7 last year. In firms of $50 million to $75 million, the ratio of highest-to-lowest is up from 4.5 last year to 5.1 this year.
- Of all equity partners admitted last year, 45% were lateral hires coming from another firm, down from 41% the previous year.
- Average percentage of female ownership among the 500+ firms that participated in this year’s survey is at 16.9%, up from 15.6% last year. Among the IPA 100 firms, that number is 15.0%, up from 14.0% last year.
- Average age of all equity partners stays steady at 52.7 years.
- Even with a number of MPs retiring last year, the average age of MPs remains steady at 56.0 years. Among the IPA 100, that number is 57.8 years.
- The percentage of equity partners working a part-time or alternative schedule is only 1.6%, down from 2.5% last year.
- The percentage of firms indicating the path to partnership is 10 years or less is 12.1%, down from 12.8% last year.
- The percentage of firms with NO succession plan is 60.4%, down from 64.2% last year.
STAFFING: WHAT’S REALLY HAPPENING?

For the last few years, firms across the country have experienced a profitability squeeze, driven in part by staffing costs rising faster than billing rates.

What do the numbers show? Consider the following: On average, the most recent merit increases for professional staff (for all size firms) were:

- 6.0% 0-2 years’ experience
- 6.9% 3-5 years’ experience
- 6.2% 6-8 years’ experience
- 5.3% 9+ years’ experience

However, billing rate hikes for this year for all firm sizes are, on average, just at 4.0%, with the largest firms averaging about 4.6%. Firm leaders in the Northeast tell us that competition is so fierce that they are expecting to be able to raise rates by an average of only 3.6%.

Facing staff shortages, the largest firms are tending to “hire first” – when they can – and “get the work later,” which results in costs going up faster than revenues. For the largest firms - The IPA 100 - staff leverage has shot up from 7.7 professionals per equity partner in 2011 (at a low point because of layoffs during the recession) to 10.5 professionals per equity partner in 2015. The following graph highlights the relatively sharp rise in leverage since firms started hiring again after the recession.
So firms have more staff, and merit increases are going up faster than billing rates. Wouldn't generating more revenue per person even things out? Aren't firms experiencing greater efficiencies and higher revenue per FTE? Well, yes, but . . . as the table below shows, combined growth in average revenue per FTE over the last five years has gone up by only 5.2% in total for the largest firms, and less than 10% in total for the smallest.

**Five Year Total Growth in Net Revenue per Employee 2010-2015**

<table>
<thead>
<tr>
<th>IPA 100</th>
<th>IPA 200</th>
<th>$5 - $15 Million</th>
<th>Under $5 Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.2%</td>
<td>7.1%</td>
<td>8.3%</td>
<td>9.6%</td>
</tr>
</tbody>
</table>

With more staff per partner, salary increases going up faster than billing rates, and the overall rising costs of employees (health care, etc.), personnel costs as a percentage of total revenue has increased for the IPA 100 from 44.2% in 2011 to almost 48% today – a jump of 8.5%. The graph below reflects the reality of increased staffing costs as a percentage of revenue at just about every revenue level.

**Average Personnel Costs as a Percentage of Net Revenue**

Source and Copyright ©2015 The Platt Group / INSIDE Public Accounting / www.insidepublicaccounting.com
Staffing Models Are Shifting As A Result Of Turnover, Shortages Of Experienced Staff

Firm recruiters are working overtime, looking everywhere they can for qualified professional staff. Professional staff turnover rates in the largest firms (above $75 million) averaged 17.0% last year, with one in six of them experiencing turnover rates above 20%. The white gloves are off, many observe, as recruiters are aggressively turning to social media to find, communicate with, and attract talent. Firms once refused to solicit staff at rival firms as a professional courtesy. Those days are gone.

The AICPA reports that the number of accounting students today is at an all-time high, with enrollments at undergraduate and graduate accounting programs crossing the 250,000 threshold for the first time. The AICPA also points out that while those numbers are increasing, and job prospects for accounting graduates are very bright, it is keeping an eye on the widening gap between the number of degreed accountants and the number of candidates who are sitting for the CPA exam. (Source: 2015 Trends in the Supply of Accounting Graduates and Demand for Public Accounting Recruits," issued in August 2015)

One very positive sign for the profession is the increase in total professional staff, which is up on average for most revenue bands as shown below.
That growth is consistent with the claim that the unemployment rate for qualified professional staff in public accounting firms is less than 1%. The graph below provides a current snapshot of the average professional staffing mix (excluding partners) at different-sized firms.

Staffing Levels as a Percentage of Total Professional Staff Excluding All Partners

One competitive advantage that smaller firms should note is that the smaller the firm, on average, the higher the percentage of staff with nine or more years of experience.

But dig below the surface, and a clearer, less rosy picture emerges. While it is true that overall staffing numbers are generally up, the increases are primarily coming from less experienced staff, increasing their share of total professional staff and causing firms to become more “bottom heavy.” Similarly, professional staff with six or more years of experience are becoming a smaller percentage of the total, forcing partners to either do more manager-level work or training less experienced staff to get up to speed – usually both.
The following graph highlights the changes in each professional staff level as a percentage of the total professional staff.

### 2014-2015 Average Growth in Staffing Levels
(By Years of Experience) as a Percentage of Total Professional Staff

![Graph showing average growth in staffing levels by years of experience](image)

<table>
<thead>
<tr>
<th>Other Prof Staff</th>
<th>Paraprofessionals</th>
<th>9+ years'</th>
<th>6- to 8-years'</th>
<th>3- to 5-years'</th>
<th>0- to 2-years'</th>
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<td>22%</td>
<td>0%</td>
<td>-8%</td>
<td>-5%</td>
<td>0%</td>
</tr>
<tr>
<td>IPA 200</td>
<td>0%</td>
<td>-14%</td>
<td>-4%</td>
<td>-6%</td>
<td>9%</td>
</tr>
<tr>
<td>$5 - $15 M</td>
<td>0%</td>
<td>25%</td>
<td>-7%</td>
<td>-11%</td>
<td>5%</td>
</tr>
<tr>
<td>&lt; $5M</td>
<td>0%</td>
<td>-8%</td>
<td>-3%</td>
<td>30%</td>
<td>-21%</td>
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</tbody>
</table>

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The bottom line is that the most successful firms ensure that partners do partner-level work, and delegate as much as possible. Getting newer, less experienced staff trained and up-to-date quickly, therefore, is a key strategic focus of many firms. Sixty percent of all firms now have a formal mentoring program in place for all professional staff, while 82% of all firms above $10 million have a formal training program for all professional staff.

Firms have also embraced emerging leader training – identifying, selecting and accelerating up-and-coming superstars – in two-thirds of firms above $10 million.

Partners continue to try to find ways to get staff quickly up-to-speed as they juggle many conflicting priorities, including increasingly complex client needs, a changing workforce and its approach to work, a more competitive landscape, and an aging partner group getting closer to retirement and thinking about succession issues.
For obvious reasons, firms utilize different training and governance tools, based on their size and complexity. But if you are running a $15 million firm and want to grow to $50 million, why wait until you get there to use some of these tools? Why not start now? The following graph highlights the 10 governance tools shown in order of the largest differential between percentage use at the largest firms and percentage use at the smaller firms.

**Top 10 Governance Tools With The Largest Differential of Use in Select Revenue Bands**

- Formal Training Program - Emerging Leaders
- Department Strategic Plan
- Written Partner Performance Reviews
- Diversity Recruiting Plan
- Formal Requirements to Become Non-Equity Partner
- Formal Marketing Plan
- Formal Training Program - Current Partners
- Formal Training Program - All Professional Staff
- Written Partner Code of Conduct
- Written Succession Plan

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Beyond the top 10 tools with the greatest use differential, the following graph IPA presents the remaining training and governance tools that were included in the survey, showing percentage usage by the firms in each revenue band.

Additional Governance Tools With The Largest Differential of Use in Select Revenue Bands

Source and Copyright ©2015 The Platt Group / INSIDE Public Accounting / www.insidepublicaccounting.com
TRENDS AND CHALLENGES: A 30,000 FOOT-VIEW

Firm leaders today are operating within an enormously complex, and increasingly global, business environment. Consider the following list of just some of the trends affecting the business of public accounting. Many may view them as challenges, but for the optimistic – and opportunistic – entrepreneurs running many accounting firms today, this list of trends presents tremendous opportunities – for better client service, for better staff, for better results in running their firms:

- Tighter margins – Lower revenues, due to post-recession client demands, and higher wages as firms compete for limited experienced talent, means firms are keeping a more watchful eye on finances.
- Disruptive innovations – Technology is changing the way clients buy services and the way that work is done. The accounting profession is not immune to these changes and firm leaders are learning to adapt and drive some of that change.
- Leadership changes – Rainmaker partners are retiring now or planning to do so soon, while the next generation of leaders has historically been oriented toward client service or technical expertise. A growing number of firms don’t have the bench strength to take the firm into the future and pay the retirements of those who built it.
- Younger partners in some firms are seizing the moment and leaving to create their own firms, identifying new ways of conducting business and serving the kinds of clients they want to serve.
- Data security concerns – Rapid technological changes, increasingly mobile device connectivity, and a rise in high-profile hacking incidents is causing many sleepless nights, requiring firms to adapt quickly to prevent security breaches and assure data security.
- Lack of diversity among partners – A diversified U.S. population – in age, ethnicity, language and gender – is not reflected in the owners of accounting firms and change is glacially slow.
- Work environment challenges – Technology makes it possible for professionals to work anytime, anywhere. Balancing the needs of the individual with the needs of the firm, colleagues and clients can be tricky.
- Globalization – Clients need answers to increasingly complex issues as the economy becomes more globally integrated.
- New regulations – Keeping up with ever-changing rules is a constant challenge for the profession.
- Acquisition pressures – Consolidation within the industry is pressuring firms to get bigger, causing integration issues for some, and business opportunities for many. Increased fallout of staff and clients post-merger is seen as both a challenge and opportunity.
- Cultural shifts – Younger employees often have different motivations and expectations than their elders at the firm. Up-and-comers who have “the right stuff” aren’t willing to wait the traditional 12 to 15 years to become partner and will challenge the firm to re-think normal career paths.
- Fierce competition – A desire to regain market share lost during the recession as fee-cutting continues at unprecedented levels across the country.
- Commoditization of services – Firms are struggling to define why they are different from everyone else. Those who have found a way to communicate their unique differences – their “why” – stand to make greater strides with both clients and staff.
**Top Challenges By Firm Size**

Whether it's a $500,000 firm, a $5 million firm, or a $500 million firm, a host of challenges are weighing heavily on the minds of management. IPA asked firm leaders to list the biggest challenges facing them today, and the top responses are presented below for firms of all sizes.

While larger firms are less concerned about some of the management struggles facing smaller firms, like partner issues (in dark purple below), smaller firms are more challenged by staff development (in pink) and succession issues (light purple). All firms, however, are challenged by growth (dark green) and staff recruiting and retention (light green) – which dominate the No. 1 and No. 2 responses to the biggest challenges facing the profession today.
Technology Trends: Platt’s Perspective: Shifting The Power Of Billing To Clients In Real Time

“Disruptive innovations.” It’s a phrase we continue to hear more and more often, as new approaches to old ways of doing things continue to be developed. One interesting innovation recently entered the legal profession, and is sure to have an impact in the near future on accounting firms as well.

For as long as the profession has been around, the billing process has been managed and controlled by the service providers themselves. Law firms (and accounting firms) enter hours worked in the time and billing system, review reports, write off time as they feel appropriate, issue discounts (or premiums) as they feel appropriate, and send the invoice out the door.

Occasionally, especially in the legal world, clients are surprised by the size of the bill, object to the cost, and the firm adjusts the bill based on the client’s pushback. Sound familiar?

Enter a new generation of apps designed to shift the control to the client, removing some of the secrecy inherent in the traditional billing process. In the last 18 months, new disruptive products such as ViewABill, LeGuard and Apperio have appeared, allowing law firm clients not only transparent access to the billing process, but also the power to “throttle back” the amount of work being delivered by the firm based on real-time access to hours in the online system. This collaborative approach between client and attorney is intended to help clients budget better and eliminate surprises when the bill arrives.

According to ViewABill, the first of these companies in the market, the initial response by law firms was fear that the software would drive a wedge between them and their clients. In an article earlier this year in Bloomberg Business, ViewABill reports that half the top law firms in the country are now using their software, helping the firms to promote a culture of collaboration with their clients. A marketing video for LeGuard touts the “revolutionary way to control legal billing by holding lawyers accountable for the number of hours they bill to a client.” Apperio provides customizable dashboards to track time, provide real-time alerts based on spending thresholds the clients set, and compares performance to other law firms, encouraging the firm’s clients to “keep your eye on the ball.”

Based on the 2015 IPA National Benchmarking Report, 97.5% of the revenue generated in firms still comes from the traditional "dollars times hours" formula. It's just a matter of time before this same technology innovation permeates the accounting profession.
Could this promote a culture of greater collaboration between firms and their clients? Could it drive the profession to issue invoices in a timelier manner? Could it eliminate those awkward after-the-fact billing questions from clients? Could your clients demand that YOUR firm provide this type of access?

Whether this specific disruptive innovation is met with defensiveness or eagerness, the fact remains that it is here now, and is part of the growing trend empowering clients. Firms that embrace collaborative billing, prepare for it, create processes to maximize its potential, and appropriately communicate to clients, in my opinion, will win.

Optimism About U.S. Economy Drops, AICPA Survey Finds

The percentage of business executives who are optimistic about the U.S. economy going forward dipped below 50% for the first time since early 2014, according to the third quarter 2015 AICPA Economic Outlook Survey, which polls CEOs, CFOs, controllers and other CPAs in U.S. companies who hold executive and senior management accounting roles. Hiring plans also continued to soften from late last year.

Some 48% of respondents expressed optimism about the U.S. economy over the next 12 months, down from 52% last quarter and well below the first quarter mark of 68%. The impact of a global economic slowdown and domestic regulatory concerns were among the top reasons cited for the slide.

“Because of economic uncertainty, we’re seeing a more cautious approach to hiring at most companies, particularly the largest ones,” said Arleen R. Thomas, the AICPA’s senior vice president of management accounting and global markets. “If there’s a silver lining, 61% of executives who work at companies with annual revenue of less than $10 million said they expect their business to expand in the coming year, up from 47% last quarter.”

There was a modest increase (+1 percentage point) in optimism about prospects for survey takers’ own businesses, which rose to 59% after successive declines over the past two quarters.

Some 52% of business executives say their company currently has the right staffing. Another 18% said they are looking to hire immediately, down from 21% last quarter. The biggest shift, however, came in companies that need more employees but are hesitant to hire – one-in-five
survey takers say their organizations now fall in this category, up six percentage points from last quarter.

Overall, expected headcount growth for the next 12 months fell 0.2 percentage points in the past quarter to 1.3%. It had been as high as 2.1% in the fourth quarter last year.

The CPA Outlook Index – a comprehensive gauge of executive sentiment within the AICPA survey – fell one point in the third quarter to 71, the third consecutive drop from a post-recession high of 78 in the fourth quarter of 2014. The index is a composite of nine, equally weighted survey measures set on a scale of 0 to 100, with 50 considered neutral and greater numbers signifying positive sentiment.

Uberization Implications For Accounting Firms

OPPORTUNITIES...

MORE FACE-TIME WITH CLIENTS AND PROSPECTS
As key accounting technology platforms embrace open architecture, more and more relevant data will start flowing automatically without much manual intervention. The time that you now spend handling and making sense of data and information will suddenly be available to you – and you would want to use that for more face time with clients and prospects. As data increasingly manages itself, an accounting professional’s role will change from that of “producer” to “insights leverage strategist.”

LOWER RENT / LEASE PAYMENTS
With high-capacity cloud technology NOT sitting in your office, with mobile talent working for you, with literally free and easy video calls, you can use much lesser office space.

PROFIT FROM MULTIPLE POINTS OF SALE
You like it when your bank’s ATM or branch is nearby, so why should your clients travel to your firm’s office? Arguably the biggest impact of Uberization will be profit growth through more locations. With mobile talent, your firm’s services can be delivered wherever your employees are. They are like your new “points of sale,” many more than just one or two offices.

WIDER ACCESS TO TALENT AND SKILLS
In the increasingly connected world, you are already connected with talent and skills that you can tap into as situations arise. Building relationships with such talent will help you meet evolving needs of clients, on demand.

Excerpted in part from the July 2015 issue of IPA
The Future of the CPA Profession
Viewing Tomorrow’s Opportunities and Challenges Through the Lens of Today

Three Industry Leaders Discuss:

» War for Top Talent
» Growing Generational Divide
» Fiscal Budget Gap
» CPA Firm Mergers & Acquisitions
» Changes in Tax Laws and Public Policy Debates

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“Getting Better” Is A Mindset, Not A Strategic Initiative

BEST OF THE BEST SNAPSHOT. Full details on all metrics by firm size, geographic region and by Best of the Best firms are highlighted in the 2015 IPA National Benchmarking Report.

One of the many hallmarks of the IPA Best of the Best is an ongoing quest to improve. “Getting better” is not just a goal – it is a way of thinking that permeates the firm. This focus is manifested in many ways, and can offer a clue to the many approaches Best of the Best firms use to stay at the top of their game.

Association Membership: While 80% of the firms that participate in the annual IPA Survey and Analysis of Firms belong to an international association, an overwhelming 98% of the Best of the Best report membership. Actively seeking out what’s working in other firms and adapting ideas to fit the culture of their firms is a critical element of the continuous improvement process.

Creating Great Business People: In many Best of the Best firms, providing staff with the tools to become great business people is seen as a primary role and responsibility of the firm, not just a state Board of Accountancy requirement. Emerging leader training is in place at 80% of the Best of the Best firms compared to 50% of all firms. Eighty-eight percent of Best of the Best firms report a formal mentoring program for staff compared to 55% of all firms. And partners need to get better too. More than half of Best of the Best firms have a formal training program for current partners compared to 29% of all firms.

Strategic Thinking: In conversations with some of the Best of the Best MPs over the years, IPA has learned about their long-term strategy discussions, which offer a glimpse into the questions leaders are asking to get better at what they do. While not exclusive to the realm of the IPA Best of the Best, some discussions offer a glimpse into the thought processes of firms that continue to make proactive choices and get better at what they do:

- What products, services or tools can we develop to help our clients get customers?
- What do we need to do to ensure that our services are not viewed as a commodity?
- What might our business look like if we decide to get out of the compliance business altogether? (Several MPs we spoke with indicated they are considering divesting their entire compliance businesses in 5 to 10 years.)
- What complementary services should we be providing that will solve client problems beyond accounting-oriented issues?
INSIDE Public Accounting is offering firm leaders a tool to quickly and easily compare their firms with others across the nation. The IPA Financial / Operational Performance Report Card ranks 22 metrics to help firms identify areas for needed improvement.

COMPARE Net Revenue – Operational – Net Income – Compensation Metrics

Each of the metrics provides you with a quick and easy snapshot of your overall rankings. Broken out by Top Quartile, Middle and Bottom Quartile, these rankings provide you with a visual snapshot of your firm’s overall performance in specific areas.*

The report card is also customized to firm size based on your firm’s revenues (IPA Top 100 firms, $60 million and above, $30 million to $60 million, $20 million to $30 million, $10 million to $20 million, $5 million to $10 million, $3 million to $5 million, and < $3 million.)

Benchmarking is a systematic process for identifying and implementing best practices. Knowledge gained through the benchmarking process can be adapted and incorporated into your firm’s processes. Therefore best practice benchmarking involves the whole process of identifying, capturing, analyzing, and implementing best practices.

*Your firm must have participated in the IPA annual survey in order for IPA to provide you the needed data (metrics).

More detailed findings are available in INSIDE Public Accounting’s National Benchmarking Report, considered the gold standard for accounting firm benchmarking since 1990.

Contact our office for more details or to order your custom Report Card.

(317) 733-1920 survey@plattgroupllc.com
## THE 2015 IPA FINANCIAL AND OPERATIONAL REPORT CARD

### PREPARED FOR

<table>
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<tr>
<th>Flintstone Rubble &amp; Company</th>
<th>Ranking Among All Participating Firms</th>
<th>Average All Participating Firms</th>
<th>Ranking Among All $10 - $20M Firms</th>
<th>Average All $10 - $20M Firms</th>
<th>Average 2015 Top 25 Best of the Best</th>
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<td></td>
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<tr>
<td>Net Revenue Growth Rate (Organic Only)</td>
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<td>278 of 507</td>
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<td>Net Revenue per Charge Hour</td>
<td>$175.23</td>
<td>115 of 474</td>
<td>$146.22</td>
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<td>Net Revenue per Equity Partner</td>
<td>$1,376,826</td>
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<td>Net Revenue per Square Foot</td>
<td>$503</td>
<td>280 of 469</td>
<td>$604</td>
<td>90 of 133</td>
<td>$654</td>
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### OPERATIONS

| Charge Hours per Professional Staff (Excl. Eq. Ptnrs.) | 1,281 | 366 of 473 | 1,401 | 107 of 139 | 1,452 | 1,503 |
| Utilization (All Professional Staff Incl. Eq. Ptnrs.) | 60.1% | 375 of 468 | 68.3% | 117 of 138 | 66.8% | 68.5% |
| Utilization (All Professional Staff Excl. Eq. Ptnrs.) | 63.1% | 380 of 468 | 72.5% | 116 of 138 | 70.0% | 72.0% |
| Charge Hours by Professional Staff Percentage (Excl. Eq. Ptnrs.) | 79.9% | 376 of 472 | 86.4% | 121 of 138 | 89.1% | 90.5% |
| Personnel Costs as Percentage of Revenue | 44.0% | 191 of 476 | 49.6% | 44 of 137 | 49.5% | 43.6% |
| Professional Staff : Administrative Staff Ratio | 4.0 | 348 of 503 | 5.6 | 101 of 143 | 6.6 | 7.6 |
| Professional Staff : Equity Partner Ratio | 5.4 | 379 of 501 | 7.9 | 115 of 143 | 9.4 | 11.5 |
| A/R - Days of Production Locked Up | 34.3 | 76 of 480 | 66.0 | 21 of 138 | 66.5 | 45.2 |
| WIP - Days of Production Locked Up | 22.7 | 224 of 462 | 30.2 | 50 of 130 | 22.5 | 20.9 |

### NET INCOME

| Net Income as Percentage of Revenue | 34.8% | 118 of 475 | 31.5% | 32 of 137 | 27.5% | 36.5% |
| Fully Loaded Net Income as Percentage of Revenue | 13.2% | 259 of 450 | 13.8% | 83 of 129 | 14.2% | 31.6% |
| Net Income Growth Rate (Organic Only) | -0.9% | 326 of 465 | 7.7% | 96 of 135 | 5.4% | 14.6% |
| Net Income per Charge Hour | $60.98 | 114 of 459 | $50.48 | 37 of 133 | $46.88 | $83.95 |
| Fully Loaded Net Income per Charge Hour | $20.34 | 240 of 439 | $23.01 | 75 of 125 | $24.22 | $70.55 |
| Net Income per Equity Partner | $342,018 | 329 of 468 | $464,050 | 106 of 136 | $492,555 | $1,105,675 |

### COMPENSATION

| Average Equity Partner Compensation | $283,657 | 351 of 469 | $410,556 | 109 of 135 | $436,598 | $995,856 |
| Average Non-Equity Partner Compensation | $179,852 | 250 of 307 | $189,521 | 60 of 99 | $204,563 | $277,654 |
| Average Professional Staff Compensation | $78,258 | 171 of 460 | $73,161 | 51 of 133 | $77,695 | $92,548 |

### Key

- **TOP 25% of Responses**
- **MIDDLE 50% of Responses**
- **BOTTOM 25% of Responses**

Total response numbers will change due to the fact that not all respondents provided the requested data. A total of 525 firms participated in the 2015 IPA Annual Survey and Analysis of Firms. Averages exclude all Big 4 data.

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4000 W. 106th St., Suite 125-197, Carmel, IN 46032
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KEEP CLIMBING

Improving Through Sharing

CPAmerica International is a member-driven accounting association that gives members access to Top-10 firms and provides a wealth of resources that encourage growth and offer continuous improvement.
2015 IPA NATIONAL BENCHMARKING REPORT

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2015 FINANCIAL & OPERATIONAL REPORT CARD*

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*Available to fully participating firms only. Please allow three business days for preparation and delivery.

2015 INTERNAL OPERATIONAL SURVEY REPORTS

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*Internal Operational Package includes one electronic PDF report of all three operational reports, above.

INSIDE PUBLIC ACCOUNTING NEWSLETTER

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<tr>
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Amount Due: ________________

Name ____________________________________________________________

Firm ____________________________________________________________

Mailing Address ________________________________________________

City ___________________________ State _______________

Zip ___________________________ Phone ___________________________

Association _____________________________________________________

E-Mail Address _________________________________________________ (Required)

Payment: Check     Visa     MasterCard     American Express

Card # ________________________________________________________

Exp. Date_________________________ Security Code ___________________

Name __________________________________________________________

Billing Address ________________________________________________

City ___________________________ State _______________

Zip ___________________________

SPECIAL INSTRUCTIONS: __________________________________________

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THANK YOU