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CPA PROFS RAP PRSA FINANCIAL REPORT

Three CPA professors have criticized the way PRSA presents its finances. Prof. Phil Wolitzer of Long Island University said he doesn't feel the finances meet the standards of "full, fair and adequate disclosure."

One professor said PRSA is "more leveraged" than its financial statements indicate. He wants the \$5,859,234 in rent owed on its 13-year lease to be reflected in the balance sheet

The CPAs, two of whom were quoted in a Feb. 9 *Wall Street Journal* article critical of Omnicom's financial statements, said the dues income should be booked "ratably" over the course of the year.

Doing so would cut PRSA's claimed "net assets" of \$2,637,058 by at least \$1.6 million to a little over \$1M. Assets would thus be a comparatively small percentage of PRSA's annual costs of \$9.9M.

The other professors consulted were Edward Ketz of Penn State and Charles Mulford, Georgia Tech.

Ketz is author of nine books including *Hidden Financial Risk*. He has been quoted by the *New York Times*, *Washington, Post*, *Business Week* and *USA Today*, among others. His column, "The Accounting Cycle: Wash, Rinse and Spin," is on smartpros.com.



Edward Ketz

Mulford is co-author of *Financial Warnings*, and numerous papers in financial/accounting journals.

Both Ketz and Mulford supported the contention of the WSJ's 2002 article that Omnicom should have taken a loss on its dot-com investments.

Said the WSJ Feb. 9: "The creation of the entity, Seneca Investments, appears to have been used by OMC to avoid an earnings charge of at least \$89.5M in the first half of 2001, when it reported earnings of \$246M, documents (from court) indicate."

PRSA Release Claims Record Assets

A PRSA release April 25 led with the claim that its assets had grown 8% in 2005 to "the highest level in the Society's 59-year history."

The third paragraph noted that 2005 revenues fell 6.7% to \$10.2M because of the cancelled annual conference in Miami Beach.

PRSA in 2005 deferred \$963,082 in income when dues totaled \$4.4M. Of the \$963,082, \$312,000 was for publications only. Another \$651,082 was for dues paid in advance of a member's anniversary date or for payments for future seminars.

The International Assn. of Business Communicators, which has date of joining (anniversary) billing like PRSA, deferred \$1.5M of its \$2.5M in dues in 2003. It reported net assets of -\$715,854. Dues are "recognized on a straight-line basis over the period of membership," says the IABC audit.



The PRSA financial statements "do not reflect how the dues are earned," said Charles Mulford of Georgia Tech.

The New York State Society of CPAs, doing the same, deferred \$4.6M of its \$6.5M in dues in 2004.

Mulford said PRSA's dues should be booked as earned over the course of a year and that "this is not a grey area at all." The PRSA financial statements "do not reflect how the dues are earned," he said.

Wolitzer said proper accounting "would not cost PRSA any money but would give members a better picture of the Society's finances ... it would utilize GAAP (generally accepted accounting principles) better for more transparency."

Audits Miss Key Info

The CPAs pointed out that an audit may not address issues of keen interest to members.

PRSA has been reporting minimal amounts of staff time for its annual conference: \$181,657 in 2005; \$103,122, 2004; \$108,197, 2003; \$108,826, 2002.

Former officers and treasurers say actual staff time on the conference approaches \$2M because of elaborate preparations needed such as lining up nearly 150 speakers each year; arranging for 40+ exhibits; creating and printing a four-color program of 80 pages or more; advance visits to cities, etc.

Members were told that the 2004 conference in New York had record profits of \$580,284.

Only about 4% of members go to an annual conference 2005 president Judith Phair has said.

The 2005 board permanently cancelled printing of PRSA's nearly 1,000-page directory of members, PR services, committees, bylaws, etc., saying the prime motive was that the new online directory is better and that cost was not the major factor.

Millions Removed from Categories

The CPA professors were not pleased by PRSA's new "administration" category in which \$2.6 million in 2005 expenses are lumped together after being removed from 13 categories of spending. A total of \$2.2 million was removed in 2004.

For instance, publications cost \$1,428,564 in the 2003 audit but this was restated to be \$970,726 in the 2004 audit. Removed were \$457,838 in costs. Similar reductions took place in the other categories such as the conference, Counselors' Academy, PRSSA, awards program, etc.

However, the CPAs said there was nothing illegal about such a practice although the members are getting less information.

There are a lot of "gaps" in GAAP, said Wolitzer, who said PRSA should provide a footnote to the staff costs for the conference telling the members that only staff time at the actual conference is being counted. Time sheets should be kept during the year tracking number of hours worked on the conference, he said. Current practice is "not ideal," he added.

\$2,002,580 Removed from 13 Categories

Below are 2003 audited figures of PRSA for 13 categories of spending as reduced in the 2004 audit.

Category	2003 audit	Restated	Difference
Membership	\$1,189,163	\$822,169	-366,994
APR	211,288	155,661	-55,627
Awards	527,462	414,417	-113,045
Conference	1,074,852	988,398	-86,454
Seminars	285,313	260,987	-24,326
Leadership	677,116	629,508	-47,608
Counselors	284,505	248,597	-35,908
Sections	855,477	661,254	-194,223
Prof. Resources	864,050	643,829	-220,221
Publications	1,428,564	970,726	-457,838
PR Students Soc.	655,946	528,381	-127,565
Media Relations	298,022	234,153	-53,865

Marketing	547,812	328,906	-218,906
Total			-2,002,580

Rent Obligation Should Be in Financials

Ketz said the "deferred rent" of \$422,701 should instead be labeled "rent payable" in order to be "clearer."

He feels the \$5,859,234 owed in rent on a 13-year lease should be on both the assets and liabilities sides of the balance sheet.

It would not change the equity balance, he said, but would "reveal a more leveraged organization than is presented in management's statements."

Rent in 2004 at 33 Irving place, where PRSA had 14,500 sq. ft., was \$241,000. Rent on its new 22,000 sq. ft. offices at 33 Maiden lane, also known as Two Federal Reserve Plaza, is \$439,360 for 2006 to 2008 and then rises to \$530,893 in 2009 and \$549,200 for 2010 and thereafter.

"Occupancy costs," including a number of separate charges, are much higher than "rent." They were \$503,673 in 2002, according to PRSA's Form 990 filed with the Internal Revenue Service.

Such costs of PRSA for 2005 won't be known until the Society files its 990 before either May 15, Aug. 15 or Nov. 15. Non-profits often ask for extensions.



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