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# Local governmental audit and accounting manual, as of March 1, 1992 : a nonauthoritative practice aid

Susan Cornwall

American Institute of Certified Public Accountants

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# LOCAL GOVERNMENTAL AUDIT AND ACCOUNTING MANUAL

AS OF MARCH 1, 1992

A NONAUTHORITATIVE PRACTICE AID

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EDITED BY:

Susan Cornwall, CPA



## **Preface**

### **LOCAL GOVERNMENTAL AUDIT AND ACCOUNTING MANUAL**

This manual contains material from Sections 4600, 5100, 5600, 5610, 9200, 9230, and 10,700 of the looseleaf AICPA Audit and Accounting Manual which is updated quarterly. It also contains Section 3000 of the looseleaf AICPA Financial Statement Preparation Manual also updated quarterly.

This is a nonauthoritative kit of practice aids prepared by the staff of the AICPA. Users are urged to refer directly to AICPA Audit and Accounting Guides and other authoritative pronouncements.

The authors hope the manual will be helpful to local firms and practitioners in the conduct of their audits of local governmental units. However, no generalized material, such as that included in this manual, can be a substitute for development and implementation by a firm of a system of quality control that is appropriately comprehensive and suitably designed to a firm's organizational structure, its policies, and the nature of its practice.

The sole responsibility for this material rests with the staff of the Technical Information Division. This material has not been approved, disapproved, or otherwise acted upon by the senior technical committees of the AICPA or the Financial Accounting Standards Board. Comments and suggestions may be addressed to the following:

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**LOCAL GOVERNMENTAL AUDIT AND ACCOUNTING MANUAL**

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# Financial Reporting Entity Worksheet\*

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Potential Component Unit \_\_\_\_\_

Year-End \_\_\_\_\_

Contact Name \_\_\_\_\_ Title \_\_\_\_\_

Phone \_\_\_\_\_

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*Prepared:*

*Reviewed:*

*Reviewed:*

By \_\_\_\_\_ Date \_\_\_\_\_ By \_\_\_\_\_ Date \_\_\_\_\_ By \_\_\_\_\_ Date \_\_\_\_\_

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## INTRODUCTION

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This form should be prepared for the fiscal year in which GASB Statement No. 14, *The Financial Reporting Entity*, is applied. In subsequent years, the form may be updated, as necessary, and filed in the permanent file. The following 7 paragraphs were taken from the Statement.

The Statement establishes standards for defining and reporting on the financial reporting entity. It also establishes standards for reporting participation in joint ventures. It applies to financial reporting by primary governments, governmental joint ventures, jointly governed organizations, and other stand-alone governments; and it applies to the separately issued financial statements of governmental component units. In addition, the Statement should be applied to governmental and nongovernmental component units when they are included in a governmental financial reporting entity.

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body *and* either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for government organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

*Most* component units should be included in the financial reporting entity by discrete presentation. Some component units, despite being legally separate from the primary government, are so intertwined with the primary government that they are, in substance, the same as the primary government and should be reported as part of the primary government [by blended presentation]. [In paragraph 41 of the Statement, the GASB states that they are studying circumstances under which foundations, similarly affiliated organizations, and PERS might be included in the financial reporting entity and that appropriate pronouncements will be issued at a later date.]

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\* Source = Utah State Auditor's Office, Financial Reporting Entity Worksheet

There may be organizations that do not meet the definition for inclusion in the financial reporting entity. They should, nevertheless, be reported as a fiduciary fund of the primary government if the primary government has a fiduciary responsibility for them.

This Statement is effective for financial statements for periods beginning after December 15, 1992. Earlier application is encouraged. [This Statement supersedes NCGA Statement No. 3, NCGA Statement No. 7, and NCGA Interpretation No. 7.]

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**CONCLUSION (check one)**

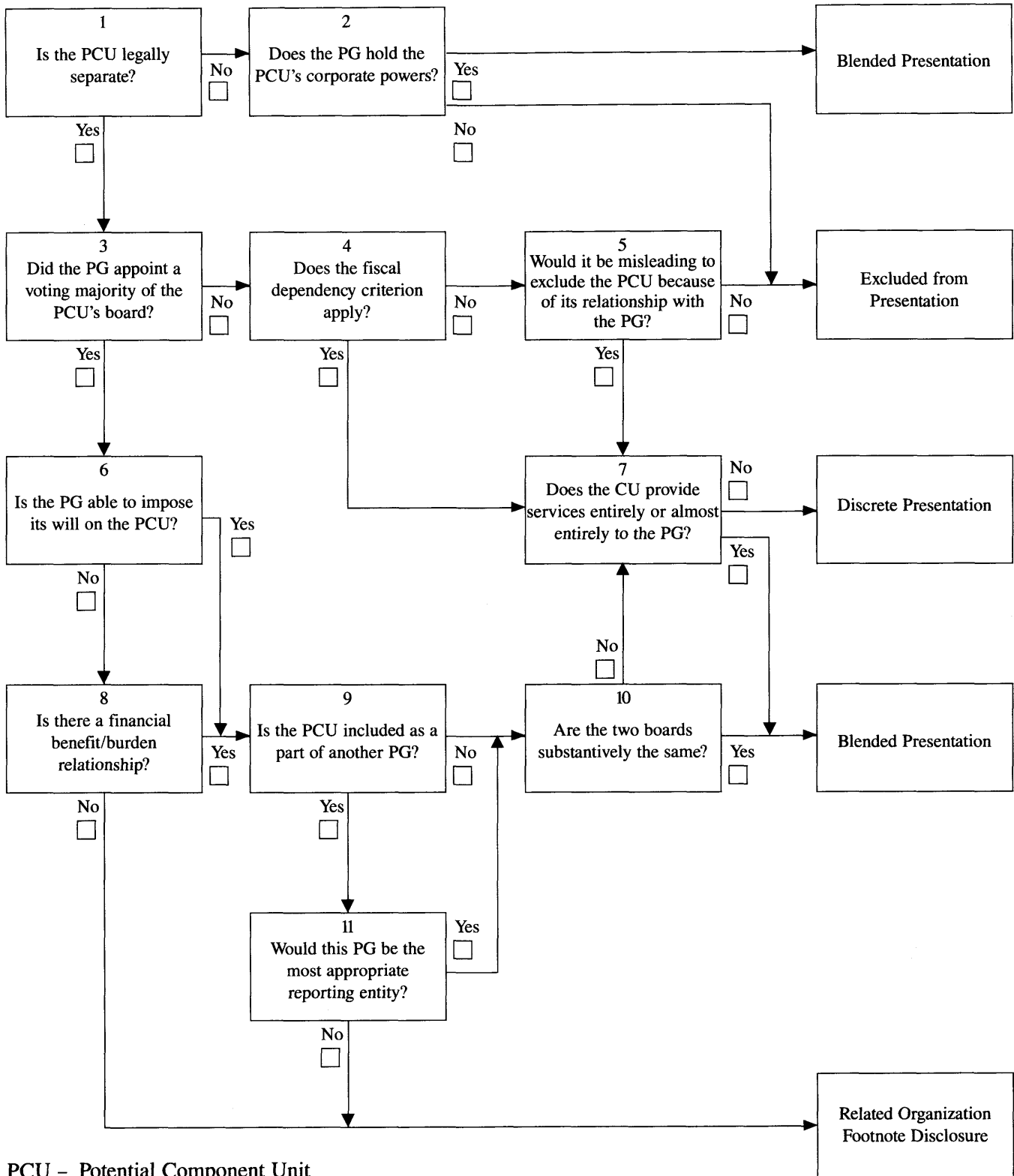
---

This potential component unit should be reported (in the financial statements of the primary government) in the following manner:

- |   |  |
|---|--|
| <input type="checkbox"/> - Excluded From Presentation               | <input type="checkbox"/> - Blended Presentation  |
| <input type="checkbox"/> - Related Organization Footnote Disclosure | <input type="checkbox"/> - Discrete Presentation |
-

### Financial Reporting Entity Flowchart

Check the appropriate boxes:



PCU - Potential Component Unit  
PG - Primary Government



# Financial Reporting Entity Worksheet

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## FLOWCHART QUESTIONS

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These questions correspond to the flowchart questions on the previous page. ¶ numbers refer to GASB Statement No. 14.

1. **Is the PCU legally separate? (¶15)**  Yes  No  N/A  
If answer is "Yes," proceed to question #3., otherwise proceed to next question.

*Consider:*

Do either of these conditions exist?  Yes  No  N/A

- a. Per review of the (check, as applicable)  corporate charter or  Code (provide Code reference \_\_\_\_\_), the PCU was created as a "body corporate" or a "body corporate and politic."
- b. The PCU possesses the corporate powers that would distinguish it as being legally separate from the PG. [See description of "corporate powers" in question #2. below.]

*Explanations:*

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2. **Does the PG hold the PCU's corporate powers? (¶15)**  Yes  No  N/A  
Proceed to page #1 of this form and conclude.

*Consider:*

Corporate powers generally give an organization the capacity to have a name; the right to sue and to be sued in its own name without recourse to a state or local governmental unit; and the right to buy, sell, lease, and mortgage property in its own name.

*Explanations:*

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3. **Did the PG appoint a voting majority of the PCU's board? (¶22-24)**  Yes  No  N/A  
If answer is "Yes," proceed to question #6., otherwise proceed to next question.

*Consider:*

Do *all* of the following conditions exist?  Yes  No  N/A

- a. The PG appoints a controlling majority of the PCU's governing board.
- b. The legal provisions for appointment of the PCU's officials provide for continued appointment authority, *or if not*, the PG has the ability to unilaterally abolish the PCU.
- c. The PG's appointment authority is substantive and not severely limited by a nominating or confirming process.

*Explanations:*

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**4. Does the fiscal dependency criterion apply? (§16-18, 21b)**  Yes  No  N/A  
 If answer is "Yes," proceed to question #7., otherwise proceed to next question.

*Consider:*

- a. Does the PG have substantive authority to do *any* of the following?  Yes  No  N/A
- 1) Approve, or modify the PCU's budget.
  - 2) Approve the PCU's tax rates or other rates or charges.
  - 3) Approve the PCU's issuance of bonded debt, if it is legal to issue bonded debt.
- b. PCU dependence upon PG funding is not considered when answering this question. However, this *may* be considered in answering question #5.

*Explanations:*

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**5. Would it be misleading to exclude the PCU because of its relationship with the PG? (§39-41)**  Yes  No  N/A  
 If answer is "Yes," proceed to question #7., otherwise proceed to page #1 of this form and conclude. Also, if answer is "No," consider the joint venture reporting requirements in §69-78.

*Consider:*

- a. Is the nature and significance of the relationship between the PCU and the PG such that exclusion from the financial reporting entity would render the PG's financial statements incomplete or misleading?  Yes  No  N/A
- b. Some specific criteria that *may* be considered include the following:
- 1) Does the PCU issue debt or solicit contributions on behalf of the PG?  Yes  No  N/A
  - 2) Is the purpose of the PCU to benefit the PG?  Yes  No  N/A
  - 3) Does the temporary nature of the PCU emphasize that the debt and revenues are, in substance, the debt and revenues of the PG?  Yes  No  N/A
  - 4) Is the PCU dependent upon PG funding to maintain its function or existence?  Yes  No  N/A

*Explanations:*

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**6. Is the PG able to impose its will on the PCU? (§25-26)**  Yes  No  N/A  
 If answer is "Yes," proceed to question #9., otherwise proceed to question #8.

*Consider:*

- a. Does the PG have the ability to do *any* of the following?  Yes  No  N/A
- 1) Remove appointed members of the PCU's board at will?
  - 2) Modify or approve the budget of the PCU?
  - 3) Modify or approve rate or fee changes affecting revenues?
  - 4) Veto, overrule, or modify the decisions (other than those in 2) and 3) above) of the PCU's governing body?

- 5) Appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations (management) of the PCU?
- b. This criterion is based on the PG's *ability* or authority, not necessarily the demonstrated ability, to impose its will on the PCU.
- c. Other conditions may also indicate that a PG has the ability to impose its will on a PCU.

*Explanations:*

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**7. Does the component unit provide services entirely or almost entirely to the PG? (§53b)**

\_\_\_ Yes \_\_\_ No \_\_\_ N/A

Proceed to page #1 of this form and conclude.

*Consider:*

Do either of these conditions exist?

\_\_\_ Yes \_\_\_ No \_\_\_ N/A

- a. [*Direct services*] The PCU provides direct services *entirely, or almost entirely*, to the PG.
- b. [*Exclusive, indirect benefit*] The PCU provides services *exclusively, or almost exclusively*, which benefit the PG even though the PCU does not provide the services directly to the PG?

*Explanations:*

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**8. Is there a financial benefit/burden relationship? (§27-33)**

\_\_\_ Yes \_\_\_ No \_\_\_ N/A

If answer is "No," proceed to page #1 of this form and conclude, otherwise proceed to next question.

*Consider:*

Do *any* of the following conditions exist, either directly or indirectly, for the PG or for any of the PG's component units? (A transaction did not have to occur in order to meet any of the following.)

\_\_\_ Yes \_\_\_ No \_\_\_ N/A

- a. Legally entitled to or can otherwise access the PCU's resources (other than a residual interest in the event of a dissolution).
- b. Legally obligated, or has otherwise assumed the obligation, to finance the deficits of the PCU.
- c. Legally obligated, or has otherwise assumed the obligation, to provide financial support to the PCU.
- d. Obligated "in some manner" for the debt of the PCU. (*Any* of the following conditions would indicate that a PG is obligated "in some manner.")
  - 1) The PG is legally obligated to honor deficiencies to the extent that proceeds from other default remedies are insufficient.
  - 2) The PG is required to temporarily cover deficiencies with its own resources until funds from the primary repayment source or other default remedies are available.
  - 3) The PG is required to provide funding for reserves maintained by the debtor PCU, or to establish its own reserve or guarantee fund for the debt.

- 4) The PG is authorized to provide funding for reserves maintained by the debtor PCU or to establish its own reserve or guarantee fund *and* the PG establishes such a fund. (If a fund is not established, the considerations in 6) and 7) below may nevertheless provide evidence that the PG is obligated "in some manner.")
- 5) The PG is authorized to provide financing for a fund maintained by the debtor PCU for the purpose of purchasing or redeeming the PCU's debt, or to establish a similar fund of its own, *and* the PG establishes such a fund. (If a fund is not established, the considerations in 6) and 7) may nevertheless provide evidence that the PG is obligated "in some manner.")
- 6) The debtor PCU explicitly indicates by contract, such as the bond agreement or offering statement, that in the event of default the PG *may* cover deficiencies although it has no legal obligation to do so. That is, the bond offering statement may specifically refer to a law that authorizes the PG to include an appropriation in its budget to provide funds, if necessary, to honor the debt of the PCU.
- 7) Legal decisions within the state or previous actions by the PG related to actual or potential defaults on another organization's debt make it *probable* that the PG will assume responsibility for the debt in the event of default.

*Explanations:*

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9. **Is the PCU included as a part of another PG? (§38)** \_\_\_ Yes \_\_\_ No \_\_\_ N/A  
 If answer is "Yes," proceed to question #11., otherwise proceed to next question.

*Consider:*

In some instances, the financial accountability criteria indicate that a PCU is a component unit of a particular PG. However, that PCU may also be fiscally dependent on another state or local government. However, a PCU should be included as a component unit of only one reporting entity.

*Explanations:*

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10. **Are the two boards substantively the same? (§53a)** \_\_\_ Yes \_\_\_ No \_\_\_ N/A  
 If answer is "No," proceed to question #7., otherwise proceed to page #1 of this form and conclude.

*Consider:*

"Substantively the same" means sufficient representation of the PG's entire governing body on the component unit's governing body to allow complete control of the component unit's activities. This criterion will rarely, if ever, apply to a state government because of the impracticality of providing sufficient representation of the state's entire governing body.

*Explanations:*

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- 11. Would this PG be the most appropriate reporting entity? (§38)**       **Yes**    **No**    **N/A**  
If answer is "Yes," proceed to question #10., otherwise proceed to page #1 of this form and conclude.

*Consider:*

Professional judgment should be used to determine the most appropriate entity. Usually, fiscal dependency on a local government, not the financial burden on the state created by legislatively established aid distribution formulas, should govern in determining the appropriate reporting entity of school districts.

*Explanations:*

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## **AAM Section 4600**

### ***Illustrative Internal Control Structure Questions—State and Local Governmental Units***

**.010** The following is a list of illustrative internal control structure questions an auditor might raise concerning a state or local governmental unit. The extent of internal control structure policies and procedures that an organization should establish is a judgment that must be made by the management of the entity. The judgment is affected by circumstances, such as the size of the organization and the number of personnel available, and by conclusions about the relationship of costs and benefits. These illustrative questions are numbered merely for organization purposes. The numbers are in no way intended to infer completeness or a preferred sequence. A firm that believes the questionnaire approach is appropriate for its practice should develop its own internal control structure questionnaires based on its own needs and preferences. In any event, users of checklists and questionnaires should recognize that important matters in a particular set of circumstances may not be covered in a standard checklist.

**I. Control Environment\***

**.020** The control environment represents the collective effect of various factors on establishing, enhancing, or mitigating the effectiveness of specific policies and procedures. Such factors include the following:

- Management’s philosophy and operating style
- The entity’s organizational structure
- Personnel policies and practices
- Methods of assigning authority and responsibility
- Management’s control methods for monitoring and following-up on performance, including internal auditing and budgeting
- Various external influences that affect an entity’s operations and practices

**.030** The control environment reflects the overall attitude, awareness, and actions of the legislative, management, staff, and others concerning the importance of the control and its emphasis in the entity.

**.040** The following questions are to assist the auditor in obtaining an understanding of the control environment and assessing the control risk.

**.050 A. Management’s Philosophy and Operating Style**

1. Does management often enter into particularly high-risk ventures, or is extremely conservative in accepting risks?
2. Does management conduct business on a high ethical plane and insist that others do so, or pay little attention to ethical issues?
3. Does management have to meet rigid targets to receive a portion of their compensation (e.g., bonus), particularly when such targets are considered unreasonably difficult?
4. What is management’s attitude and actions toward financial reporting, including disputes over application of accounting treatment (e.g., selection of conservative versus liberal accounting policies; whether accounting principles have been misapplied, important financial information not disclosed, or records manipulated or falsified)?
5. Is management conscientious and applies integrity with the judgmental aspects of reporting, when developing estimates?
6. Is there frequent interacting between senior management and operating management, particularly for geographically removed units?
7. What is management’s attitude toward the data processing and accounting functions, and their concerns about the reliability of financial reporting and safeguarding assets?
8. Has management communicated a commitment to a strong internal control structure to employees during the past year?
9. Does management periodically review the internal control structure to ensure that it is being enforced?
10. What is management’s attitude towards overriding or bypassing established controls?

	ASSERTIONS					Audit Tests of Controls	Substantive Tests
	Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
1. Does management often enter into particularly high-risk ventures, or is extremely conservative in accepting risks?	—	—	—		—		
2. Does management conduct business on a high ethical plane and insist that others do so, or pay little attention to ethical issues?		—			—		
3. Does management have to meet rigid targets to receive a portion of their compensation (e.g., bonus), particularly when such targets are considered unreasonably difficult?		—		—	—		
4. What is management’s attitude and actions toward financial reporting, including disputes over application of accounting treatment (e.g., selection of conservative versus liberal accounting policies; whether accounting principles have been misapplied, important financial information not disclosed, or records manipulated or falsified)?					—		
5. Is management conscientious and applies integrity with the judgmental aspects of reporting, when developing estimates?				—	—		
6. Is there frequent interacting between senior management and operating management, particularly for geographically removed units?	—	—					
7. What is management’s attitude toward the data processing and accounting functions, and their concerns about the reliability of financial reporting and safeguarding assets?	—				—		
8. Has management communicated a commitment to a strong internal control structure to employees during the past year?	—	—			—		
9. Does management periodically review the internal control structure to ensure that it is being enforced?	—	—					
10. What is management’s attitude towards overriding or bypassing established controls?	—	—					

\* The control environment questions in AAM section 4600.020—.100 specifically apply to governmental entities and are not intended to be all inclusive. The auditor should also consider the illustrative control environment inquiries in AAM section 4400.050—.110, which may apply to governmental entities.

ASSERTIONS

11. Has management conveyed the message that ethics cannot be compromised and have employees received and understood that message?
12. Does the "tone at the top" include explicit moral guidance about what is right and what is wrong, and is it established and communicated throughout the organization?

**.060 B. Organizational Structure**

1. Is the organizational structure so simple that it cannot adequately monitor the organization's activities, or so complex that it inhibits the necessary flow of information?
2. Does management fully understand their control responsibilities and possess the requisite experience and levels of knowledge commensurate with their positions?
3. Is there an adequate definition of key managers' responsibilities and an appropriate understanding of those responsibilities?
4. Do key managers possess the appropriate knowledge and experience in light of their responsibilities?
5. Is the entity's organizational structure appropriate so as to provide the necessary information flow to manage its activities?
6. Are the reporting relationships appropriate?
7. To what extent are organizational modifications made in light of changing conditions?
8. Are there sufficient quantities of employees, particularly in management and supervisory capacities?
9. Is the organization chart current?
10. Is the organization properly synchronized for the program/budget structure?
11. Are goals and objectives for the organization current and in writing?
12. Are functional statements current and in writing and consistent with organization chart?

**.070 C. Personnel Policies and Procedures**

1. Do personnel practices include:
  - a. A code of conduct?
  - b. Provisions for conflict of interest disclosure?
2. Are there accurate and up-to-date performance standards?
3. Are the performance standards consistent with the operating plan?
4. Is there periodic performance review (appraisal) of all employees?
5. Are there sufficient training opportunities to ensure all employees are competent to perform work assigned?
6. To what extent are policies and procedures for hiring, training, promoting, and compensating employees in place?
7. To what extent are employees made aware of their responsibilities and expectations of them?

	Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
11. Has management conveyed the message that ethics cannot be compromised and have employees received and understood that message?	—						
12. Does the "tone at the top" include explicit moral guidance about what is right and what is wrong, and is it established and communicated throughout the organization?	—				—		
<b>.060 B. Organizational Structure</b>							
1. Is the organizational structure so simple that it cannot adequately monitor the organization's activities, or so complex that it inhibits the necessary flow of information?	—	—					
2. Does management fully understand their control responsibilities and possess the requisite experience and levels of knowledge commensurate with their positions?	—						
3. Is there an adequate definition of key managers' responsibilities and an appropriate understanding of those responsibilities?	—	—					
4. Do key managers possess the appropriate knowledge and experience in light of their responsibilities?	—	—					
5. Is the entity's organizational structure appropriate so as to provide the necessary information flow to manage its activities?	—	—					
6. Are the reporting relationships appropriate?	—	—					
7. To what extent are organizational modifications made in light of changing conditions?	—	—					
8. Are there sufficient quantities of employees, particularly in management and supervisory capacities?	—	—					
9. Is the organization chart current?	—	—					
10. Is the organization properly synchronized for the program/budget structure?	—	—			—		
11. Are goals and objectives for the organization current and in writing?	—	—					
12. Are functional statements current and in writing and consistent with organization chart?	—	—					
<b>.070 C. Personnel Policies and Procedures</b>							
1. Do personnel practices include:							
a. A code of conduct?	—						
b. Provisions for conflict of interest disclosure?	—						
2. Are there accurate and up-to-date performance standards?	—	—					
3. Are the performance standards consistent with the operating plan?	—	—					
4. Is there periodic performance review (appraisal) of all employees?	—						
5. Are there sufficient training opportunities to ensure all employees are competent to perform work assigned?	—	—					
6. To what extent are policies and procedures for hiring, training, promoting, and compensating employees in place?	—	—					
7. To what extent are employees made aware of their responsibilities and expectations of them?	—	—					



ASSERTIONS

	<i>Existence or Occurrence</i>	<i>Completeness</i>	<i>Rights and Obligations</i>	<i>Valuation or Allocation</i>	<i>Presentation and Disclosure</i>	<i>Program or W/P Reference</i>	<i>Program Reference</i>
8. Is there appropriate remedial action taken in response to departures from approved policies and procedures and violations of the code of conduct?	—						
9. Are there adequate employee candidate background checks, particularly with regard to prior actions or activities considered to be unacceptable by the entity?	—						
10. Are there adequate employee retention and promotion criteria, and related information gathering techniques, related to compliance with the code of conduct or other behavioral guidelines?	—						
11. Do management performances standards include provisions for maintaining adequate internal controls?	—						
12. Are employees adequately supervised?	—	—					
13. Are staffing levels adequate?	—	—					
14. Is turnover low?	—	—					
15. Do employees have copies of their current position description?	—	—					
16. Is orientation training conducted for new employees?	—						
17. Are employees aware of their rights to communicate with any official of rank higher than their immediate supervisor?	—	—			—		
<b>.080 D. Authority and Responsibility</b>							
1. Are delegations of authority and responsibility current and in writing?	—						
2. Do the delegations of authority and responsibility reflect the segregation of duties concept?	—	—					
3. Are the job descriptions descriptive of the jobs actually performed?	—	—					
4. Do the delegations of authority and responsibility grant officials necessary authority to carry out functions for which they are responsible?	—	—					
5. Are employees held accountable for performance and results achieved?	—	—					
6. Do managers routinely follow-up on delegations of authority and responsibility to subordinates?	—	—					
<b>.090 E. Management Control Methods</b>							
1. Is there a long-range planning process?	—	—					
2. Is the budgeting system integrated with the planning process?	—	—			—		
3. Are plans and budgets effectively communicated throughout the organization?	—	—			—		
4. Are responsibilities for budget preparation, adoption, execution, and reporting segregated?	—	—			—		
5. Is a budget calendar used for the orderly submission and approval of the budget?	—	—					
6. Are budgets prepared for all significant activities regardless of whether mandated by law?	—	—					
7. Is the budget prepared in sufficient detail providing a meaningful tool with which to monitor subsequent performance?	—	—			—		

	ASSERTIONS					Audit Tests of Controls	Substantive Tests
	Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
8. Is citizen input obtained through budget hearings?	—	—	—				
9. Has the budget been submitted to the legislative body for approval and is there clear communication to operation departments or agencies of the effects of legislatively mandated budget modifications, either increases or decreases?	—						
10. Are interfund and interdepartmental transfers included in the budget?	—	—			—		
11. Is the type of budgeting performed compatible with the accounting system?	—	—			—		
12. Are budgets published if required by law?	—				—		
13. Are estimated revenues and appropriations recorded in the accounting records for later comparison to actual amounts realized or incurred?	—	—		—	—		
14. Have procedures been adopted and communicated establishing authority and responsibility for transfers between budget categories?	—	—	—		—		
15. Is the flow of expenditures or commitments controlled through the use of an allotment system?	—	—	—				
16. Does the accounting department submit approval as to availability of funds before the issuance of a purchase order or expenditure commitment?	—	—	—				
17. Are requests for supplemental appropriations or budget changes processed and approved in the same manner as the original budget is processed and approved?	—	—	—		—		
18. If liabilities and expenditures are recorded on an encumbrance or obligation basis, are there controls to ensure knowledge of outstanding commitments?	—	—	—		—		
19. Are actual expenditures compared to budget with reasonable (monthly) frequency and on a timely basis?	—	—		—	—		
20. Are reports discussed with departmental personnel and are there explanations for significant variations from budget?	—	—		—	—		
21. Are executive and legislative branches notified of expenditures in excess of appropriations or budgets?	—	—	—		—		
22. Are actual results of operations against budget published if required by law?	—	—		—	—		
23. Are the adequacy and effectiveness of the internal control structure policies and procedures relevant to the entity's transaction classes and are account balances periodically evaluated?	—	—			—		
24. Are measures implemented to correct weaknesses?	—						
25. Are there clearly established levels of operational and financial accountability?	—	—					
26. Are program evaluations/management reviews routinely performed?	—	—			—		
27. Are audits routinely performed?	—	—			—		
28. Are procedures in place and adhered to which require prompt implementation of resolved audit findings or program/management review results?	—	—			—		
29. Are policies and procedures current and in writing?	—	—					

ASSERTIONS

	Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
30. Are policies and procedures consistent with statutory authorities?	—	—	—				
31. Are all policies and procedures clearly stated and systematically communicated (manuals, handbooks, etc.)?	—	—					
32. Do the policies and procedures support the internal control structure?	—	—					
33. Are there channels of communication for people to report suspected improprieties?							
a. Ability to contact someone other than a direct supervisor?	—	—					
b. Anonymity permitted?	—						
34. Is feedback provided to people who report suspected improprieties and do they have immunity from reprisals?							
a. Is management receptive to such reports?	—						
35. Are outside parties made aware for the entity's ethical standards?	—						
36. Is there timely and appropriate follow-up action by management resulting from external party communications, such as:							
a. Customer complaints?	—	—					
b. Notification of errors in billings?	—	—		—	—		
c. Notification of inappropriate behavior by an employee?	—						
37. Are there mechanisms to identify and react to changes that can have a more dramatic and pervasive effect on the entity, and may demand the attention of senior management? Some examples include:							
a. New laws or regulations that affect the entity or its activities,	—	—					
b. New or redesigned information systems,	—	—			—		
c. New technology incorporated into the information systems.	—	—			—		
<b>.100 F. External Influences</b>							
1. Is the organization subject to external forces or pressures which make it vulnerable to errors?	—	—			—		
2. Does the public perceive this organization to be adequately controlled?	—				—		
Phase 1:	L M H	L M H	L M H	L M H	L M H		
Preliminary Risk Assessment							
Phase 2:	L M H	L M H	L M H	L M H	L M H		
Final Risk Assessment—Based on audit tests of controls							

## II. Accounting System

**.110** The accounting system consists of the methods and records established to identify, assemble, analyze, classify, record, and report an entity's transactions and to maintain accountability for the related assets and liabilities. The auditors should obtain knowledge of the accounting system to understand:

- The classes of transactions in the entity's operations that are significant to the financial statements.
- How those transactions are initiated.
- The accounting records, supporting documents, computer media, and specific accounts in the financial statements involved in the processing and reporting of transactions.
- The accounting processing involved from the initiation of a transaction to its inclusion in the financial statements, including how the computer is used to process data.
- The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures.

**.120** The following questions are to assist the auditors in obtaining an understanding of the accounting system and assessing the control risks.

### **.130 A. General**

1. Does the entity have adequate written statements and explanations of its accounting policies and procedures? (Written accounting policies and procedures may include such matters as:

- (i) Chart of accounts accompanied by explanations of the items to be included in the various accounts.
- (ii) Identification and description of the principal accounting records, recurring standard entries, and requirements for supporting documentation. For example, this may include information about the general ledger, source journals, subsidiary ledgers, and detail records for each significant class of transactions.
- (iii) Expression of the assignment of responsibilities and delegation of authority including identification of the individuals or positions that have authority to approve various types of recurring and non-recurring entries.
- (iv) Explanations of documentation and approval requirements for various types of recurring and non-recurring transactions and journal entries. Documentation requirements, for example, would include the basis and supporting computations required for adjustments and write-offs.
- (v) Instructions for determining an adequate cutoff and closing of accounts for each reporting period.)

2. Are accounting policy and procedure manuals updated as necessary?

3. Are manuals distributed to appropriate personnel?

4. Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy, or procedure to be used by the entity?

	ASSERTIONS					Audit Tests of Controls	Substantive Tests
	Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
1. Does the entity have adequate written statements and explanations of its accounting policies and procedures? (Written accounting policies and procedures may include such matters as: (i) Chart of accounts accompanied by explanations of the items to be included in the various accounts. (ii) Identification and description of the principal accounting records, recurring standard entries, and requirements for supporting documentation. For example, this may include information about the general ledger, source journals, subsidiary ledgers, and detail records for each significant class of transactions. (iii) Expression of the assignment of responsibilities and delegation of authority including identification of the individuals or positions that have authority to approve various types of recurring and non-recurring entries. (iv) Explanations of documentation and approval requirements for various types of recurring and non-recurring transactions and journal entries. Documentation requirements, for example, would include the basis and supporting computations required for adjustments and write-offs. (v) Instructions for determining an adequate cutoff and closing of accounts for each reporting period.)	—	—					
2. Are accounting policy and procedure manuals updated as necessary?	—	—					
3. Are manuals distributed to appropriate personnel?		—					
4. Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy, or procedure to be used by the entity?	—	—	—	—	—		

ASSERTIONS

5. Does the principal accounting officer of the entity have adequate authority over accounting employees and principal accounting records at all locations?
6. Are the principal accounting, treasury, and custody functions segregated?
7. Are the responsibilities for maintaining the general ledger segregated from those for maintaining subsidiary ledgers?
8. Are the responsibilities for maintaining the general ledger and custody of assets segregated?
9. Is access to the general ledger and related records restricted to those who are assigned general ledger responsibilities?
10. Are there adequate facilities for custody of the general ledger and related records?  
(Examples of such facilities include fire-resistant locked cabinets, vaults, physical barriers, separate rooms, limited access to work areas, alarms, and other detection devices.)
11. Is appropriate insurance coverage maintained in amounts required by statutes or entity policy?  
(Such insurance may include loss of records coverage and fidelity bonding of employees in positions of trust.)
12. Are the preparation and approval functions for journal entries segregated?
13. Are all journal entries reviewed and approved by designated individuals at appropriate levels in the entity?  
(The levels at which journal entries are reviewed and approved will usually vary depending on whether the entries are recurring, or non-recurring, routine or unusual, accumulations of routine transactions, or adjustments of balances requiring estimates and judgments.)
14. Are all journal entries adequately explained and supported?  
(Explanation and support for an entry should be sufficient to enable the person responsible for its review and approval to reasonably perform this function.)
15. Do all journal entries include approval in accordance with management's general or specific authorization?
16. Are all journal entries subject to controls over completeness of processing?  
(Examples of controls over completeness of processing include pre-numbering of journal vouchers and accounting for all numbers used, accumulation of control totals of dollar amounts debited and credited, and standard identification numbers for recurring entries.)
17. Do all journal entries include adequate identification of the accounts in which they are to be recorded?

<i>Existence or Occurrence</i>	<i>Completeness</i>	<i>Rights and Obligations</i>	<i>Valuation or Allocation</i>	<i>Presentation and Disclosure</i>	<i>Program or W/P Reference</i>	<i>Program Reference</i>
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**.140 B. Electronic Data Processing**

**Segregation of Duties**

1. Is the EDP department independent from the accounting and operating departments for which it processes data?
2. Does appropriate segregation of duties exist within the data processing function for (a) systems development (design and programming), (b) technical support (maintenance of systems software), and (c) operations?
3. In smaller and minicomputer installations with limited opportunities for segregation of duties, do procedures exist for user departments to—
  - Utilize batch or other input controls?
  - Control master file changes?
  - Balance master files between processing cycles?
4. Do the personnel policies of the EDP function include such procedures as reference checks, security statements, rotation of duties, and terminated employee security measures that enhance segregation of duties and otherwise improve controls?

**Procedural Controls**

*User Controls*

5. Do controls exist over preparation and approval of input transactions outside the EDP department and is the department prohibited from initiating transactions?
6. Does the user exercise control procedures over input to ensure that all approved input is processed correctly through the system and only once?
7. Do controls exist over entry of data in on-line systems to restrict access to terminal and data entry to authorized employees?
8. Do on-line systems controls exist that prevent documents from being keyed into the system more than once and that permit tracing from computer output to data source and vice versa?
9. Do controls exist over changes to master files, such as requiring preparation of specific forms indicating data to be changed, approval by a supervisor in the user department, and verifying against a printout of changes?
10. Do user controls exist over rejected transactions through the use of a computerized suspense file of rejected transactions or an auxiliary manual system?
11. Does user department management reconcile output totals to input totals for all data submitted, reconcile the overall file balances, and review outputs for reasonableness?

*Application Controls*

12. Do procedures exist within the data processing control function that provide that data is properly controlled between the user and the EDP department?

ASERTIONS							Audit Tests of Controls	Substantive Tests
Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference		
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ASSERTIONS

- 13. Do controls exist over data entry, for example, that include adequate supervision, up-to-date instructions, key verification of important fields, and self-checking digits?
- 14. Do program controls exist over entry of data into on-line systems?
- 15. Is input data edited and validated?
- 16. Do data processing controls exist over rejected transactions?
- 17. Do controls exist for balancing transactions and master files?
- 18. Do procedures exist within the data processing control function concerning review and distribution of output?

**General Controls**

- 19. Do controls exist over changes to system software?
- 20. Do controls exist over the use and retention of tape and disk files, including provisions for retention of adequate records to provide backup capabilities?
- 21. Do controls exist that limit access to data processing equipment, tapes, disks, system documentation, and application program documentation to authorized employees?
- 22. Is a job accounting system (or console logs) used to ensure that scheduled programs are processed and proper procedures followed and that supervisory personnel know that only required programs have been processed?
- 23. Are EDP department employees supervised for all shifts?
- 24. Are procedures to be followed by computer operators documented?
- 25. Is the data processing system documented such that the organization could continue to operate if important data processing employees leave?
- 26. Do procedures exist to protect against a loss of important files, programs, or equipment?
- 27. Are equipment, programs, and data files covered by insurance?
- 28. Are there user-approved written specifications for new systems and modifications to existing application systems?
- 29. Are there written procedures to test and implement new systems and modifications to existing application systems?

**.150 C. Financial Reporting**

**Segregation of Duties**

- 1. Is the final review and approval of financial reports segregated from the responsibility for preparation of the reports?

Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
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ASSERTIONS

Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
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**Procedural Controls**

**General Ledger**

2. Is there a formal plan of organization for the unit of government under which reporting responsibilities are clearly defined and reasonably aligned?
3. Is the principal accounting officer over accounting records and accounting employees supervised at all locations?
4. Is there general ledger control over all assets and transactions of all departments of the organization?

**Closing**

5. Are procedures and policies for closing the accounts for a reporting period sufficient to ensure that accounts are closed, adjusted, and reviewed on a timely basis?
6. Do procedures exist to ensure that all accounting systems have included all transactions applicable to the reporting period?
7. Are valuation reserves or other account balances based on estimates reviewed and approved?
8. Are all journal entries reviewed, approved, and supported by adequate descriptions or documentation?
9. Do controls exist that ensure that only authorized individuals can initiate entries?

**Combining**

10. Do procedures exist to ensure the orderly and effective accumulation of financial data?
11. Do procedures exist for the orderly processing of financial data received from departments and other accounting units?
12. Do procedures exist to permit the recording and review of special entries generated in the combining process?

**Preparation, Review and Approval**

13. Do procedures exist to ensure that financial reports are supported by either underlying account records or other documentation?
14. Do procedures exist providing reasonable assurances that all data required to be included in legal as well as public reports are properly disclosed?
15. Do procedures exist to ensure that financial reports are prepared on a consistent basis?
16. Are financial reports reviewed and approved at appropriate levels of management and, if appropriate, by the legislature before public release?
17. Are there procedures to ensure that all requirements for filing of financial reports are met (for example, senior levels of government, bondholders, and the public)?



ASSERTIONS

**.160 D. Identified Significant Account Balances and Transaction Classes**

1. Cash?
2. Investments?
3. Revenues and Receivables?
4. Capital Assets?
5. Procurement and Payables?
6. Employee Compensation?

Phase 1:

Preliminary Risk Assessment

Phase 2:

Final Risk Assessment—Based on audit tests of controls

<i>Existence or Occurrence</i>	<i>Complete- ness</i>	<i>Rights and Obligations</i>	<i>Valuation or Allocation</i>	<i>Presentation and Disclosure</i>	<i>Program or W/P Reference</i>	<i>Program Reference</i>
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### III. Control Procedures

**.170** Control procedures are those policies and procedures in addition to the control environment and accounting system that management has established to provide reasonable assurance that specific entity objectives will be achieved. Control procedures have various objectives and are applied at various organizational and data processing levels. They may also be integrated into specific components of the control environment and the accounting system. Generally, they may be categorized as procedures that pertain to—

- Proper authorization of transactions and activities.
- Segregation of duties that reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of his duties—assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets.
- Design and use of adequate documents and records to help ensure the proper recording of transactions and events, such as monitoring the use of pre-numbered shipping documents.
- Adequate safeguards over access to and use of assets and records, such as secured facilities and authorization for access to computer programs and data files.
- Independent checks on performance and proper valuation of recorded amounts, such as clerical checks, reconciliations, comparison of assets with recorded accountability, computer-programmed controls, management review of reports that summarize the detail of account balances (for example, an aged trial balance of accounts receivable), and user review of computer-generated reports.

**.180** Questions for the following functional areas have been included to assist the auditor in obtaining an understanding of the control procedures and assessing the control risk:

- Cash
- Investments
- Revenues and Receivables
- Capital Assets
- Procurement and Payables
- Employee Compensation

#### Cash

##### **.190 A. Segregation of Duties**

1. Are responsibilities for collection and deposit preparation functions segregated from those for recording cash receipts and general ledger entries?
2. Are responsibilities for cash receipts functions segregated from those for cash disbursements?
3. Are responsibilities for disbursement preparation and disbursement approval functions segregated from those for recording or entering cash disbursements information on the general ledger?
4. Are responsibilities for the disbursement approval function segregated from those for the disbursement, voucher preparation, and purchasing functions?
5. Are responsibilities for entries in the cash receipt and disbursements records segregated from those for general ledger entries?
6. Are responsibilities for preparing and approving bank account reconciliations segregated from those for other cash receipt or disbursement functions?
7. If EDP is used, is the principle of segregation of duties within processing activities maintained?

Existence or Occurrence	ASSERTIONS				Audit Tests of Controls	Substantive Tests
	Complete- ness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
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ASSERTIONS

- 27. Are signed warrants or checks delivered directly to the mailroom making them unaccessible to persons who requested, prepared, or recorded them?
- 28. Is the drawing of warrants or checks to cash or bearer prohibited?

**Custody**

- 29. Are controls maintained over the supply of unused and voided warrants or checks?
- 30. Are bank accounts properly authorized?
- 31. Are depositories periodically reviewed and formally reauthorized?
- 32. Do controls and physical safeguards exist surrounding working (petty cash) funds?
- 33. Is adequate fidelity insurance maintained?
- 34. Are separate bank accounts maintained for each fund, or if not, is there adequate fund control over pooled cash?

**Detail Accounting**

- 35. Do procedures exist to ensure that collections and disbursements are recorded accurately and promptly?
- 36. Do procedures exist for authorizing and recording inter-bank and interfund transfers and for providing for proper accounting for those transactions?

**General Ledger**

- 37. Does general ledger control exist over all bank accounts?
- 38. Are bank statements and paid warrants or checks delivered in unopened envelopes directly to the employee preparing the reconciliation?
- 39. Do procedures exist for steps essential to an effective reconciliation, particularly—
  - Comparison of warrants or checks in appropriate detail with disbursement records?
  - Examination of signature and endorsements, at least on a test basis?
  - Accounting for numerical sequence of warrants or checks used?
  - Comparison of book balances used in reconciliations with general ledger accounts?
  - Comparison of deposit amounts and dates with cash receipt entries?
  - Footing of cash books?
- 40. Are all reconciliations and investigations of unusual reconciling items reviewed and approved by an official who is not responsible for receipts and disbursements, including recording evidence of the review and approval by signing the reconciliation?
- 41. Are checks outstanding for a considerable time periodically reviewed for propriety?

Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
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	ASSERTIONS					Audit Tests of Controls	Substantive Tests
	<i>Existence or Occurrence</i>	<i>Completeness</i>	<i>Rights and Obligations</i>	<i>Valuation or Allocation</i>	<i>Presentation and Disclosure</i>	<i>Program or W/P Reference</i>	<i>Program Reference</i>
Phase 1:	L	L	L	L	L		
Preliminary Risk Assessment	M	M	M	M	M		
	H	H	H	H	H		
Phase 2:	L	L	L	L	L		
Final Risk Assessment—Based on audit tests of controls	M	M	M	M	M		
	H	H	H	H	H		

ASSERTIONS

**.200 B. Investments**

**Segregation of Duties**

1. Are responsibilities for initiating, evaluating, and approving transactions segregated from those for detail accounting, general ledger, and other related functions?
2. Are responsibilities for initiating transactions segregated from those for final approvals that commit government resources?
3. Are responsibilities for monitoring investment market values and performance segregated from those for investment acquisition?
4. Are responsibilities for maintaining detail accounting records segregated from those for general ledger entries?
5. Are custodial responsibilities for securities or other documents evidencing ownership or other rights assigned to an official who has no accounting duties?
6. If EDP is used, is the principle of segregation of duties within processing activities maintained?

**Procedural Controls**

**Approval**

7. If applicable, are procedures adequate to ensure that only investments that are permitted by law are acquired?
8. Are investment policy guidelines formally established and periodically reviewed?
9. Is the investment program integrated with the cash management program and expenditure requirements?
10. Have authority and responsibility been established for investment opportunity evaluation and purchase?
11. Is the performance of the investment portfolio periodically evaluated by persons independent of investment portfolio management activities?
12. Are procedures formally established governing the level and nature of approvals required to purchase or sell an investment?
13. Are competitive bids sought for certificate of deposit purchases?

**Custody**

14. Do adequate physical safeguards and custodial procedures exist over—
  - Negotiable and nonnegotiable securities owned?
  - Legal documents or agreements evidencing ownership or other rights?
15. Are dual signatures or authorizations required to obtain release of securities from safekeeping or to obtain access to the government unit's safe deposit box?
16. Are persons with access to securities authorized by the legislative body?

Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
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	ASSERTIONS					Audit	Substantive
	Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Tests of Controls	Tests
						Program or W/P Reference	Program Reference
17. Are all securities registered in the name of the government unit?	—		—				
18. Are securities periodically inspected or confirmed from safekeeping agents?	—		—	—			
19. Are individuals with access to securities bonded?			—				
<b>Detail Accounting</b>							
20. Are detail accounting records maintained for investments?	—	—		—	—		
21. Do procedures exist to ensure that transactions arising from investments are properly processed, including income and amortization entries?	—	—		—	—		
22. Do controls exist to ensure that investment earnings are credited to the fund from which resources were provided for the investment?				—	—		
23. Are periodic comparisons made between income received and the amount specified by the terms of the security or publicly available investment information?	—			—	—		
24. Do controls exist to ensure that transactions are recorded on a timely basis?		—		—	—		
<b>General Ledger</b>							
25. Do procedures exist for reconciling the detail accounting records with the general ledger control?	—			—	—		
26. Is the nature of investments included in general ledger balances periodically reviewed?	—			—	—		
Phase 1:	L M	L M	L M	L M	L M		
Preliminary Risk Assessment	H	H	H	H	H		
Phase 2:	L M	L M	L M	L M	L M		
Final Risk Assessment—Based on audit tests of controls	H	H	H	H	H		

**.210 C. Revenues and Receivables**

**Segregation of Duties**

1. Are responsibilities for billing property taxes and services segregated from collection and accounting?
2. Are responsibilities for maintaining detail accounts receivable records segregated from collections and general ledger posting?
3. Are collection, control, and deposit of funds activities segregated from the accounting records maintenance function?
4. Are property tax assessment rolls maintained by individuals not engaged in any accounting or collection function?
5. Are responsibilities for entries in the cash receipts records segregated from those for general ledger entries?
6. If EDP is used, is the principle of segregation of duties within processing activities maintained?

**Procedural Controls**

***Data and File Maintenance***

***Property taxes***

7. Do controls exist to ensure that additions, deletions, transfers, and abatements are properly and timely reflected in property tax records?
8. Do procedures exist to make property assessments in accordance with the law or legislative intent with prompt adjustment of records?

***Sales, income, and other taxes***

9. Are filed returns cross-referenced against a data base of previous taxpayers?
10. Are records organized and integrated in such a fashion that probable taxpayers are identified as a result of reporting of other governmental activities such as licensing?

***License fees and permits***

11. If annual payments are involved, do procedures exist to ensure that previous years' records are properly updated for new registrants and withdrawals?
12. Are updated records used as the basis for billing persons subject to payment?

***Fines, forfeitures, and court fees***

13. Are court and other records of payments due maintained and used as a basis for collections?
14. Do procedures exist surrounding the control, issuance, and disposition of traffic violations to ensure that amounts due are assessed and collected?

	ASSERTIONS					Audit Tests of Controls	Substantive Tests
	Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
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	ASSERTIONS					Audit Tests of Controls	Substantive Tests
	Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
<i>Enterprise and other service revenues</i>							
15. Are controls maintained that provide assurances that customer data base and, where appropriate, usage records are accurately maintained to ensure that amounts due are billed?	—	—					
<b>Billing/Remittance Verification</b>							
<i>Property taxes</i>							
16. Do controls exist within the billing system to ensure that eligible property owners are billed?		—		—			
17. Do controls exist to ensure that tax assessments are being properly applied against tax rates and special charges are being considered in the preparation of billing amounts?			—	—			
18. Do controls exist to ensure that tax exemptions are within the law and properly approved?	—		—	—			
<i>Sales, income, and other taxes</i>							
19. Are returns reviewed for mathematical accuracy?				—			
20. Are current year's taxpayers' returns correlated with prior year's returns and are differences reviewed and accounted for?		—		—			
21. Are claims for refunds reviewed and approved separately?	—		—	—			
22. Are audits or returns filed to provide reasonable assurance that taxable income is properly reported?			—	—			
<i>License fees and permits</i>							
23. Are current year receipts compared to those for prior years and are explanations of variations reviewed by senior officials?		—		—			
<i>Fines, forfeitures, and court fees</i>							
24. Do procedures exist providing for correlation of amounts collected with records of court proceedings?	—	—	—	—			
25. Are tickets for fines, arrests, and so forth sequentially numbered and satisfactorily accounted for?		—					
<i>Enterprise and other service revenues</i>							
26. If billing is based on usage, are service readings performed in a timely fashion?	—	—	—				
27. Are assignments of meter readers periodically rotated?		—	—				
28. Do billing procedures exist providing for identification and investigation of unusual patterns of use?	—	—					
<b>General</b>							
29. Are taxes and fees billed in a timely fashion?		—					
30. Do procedures exist designed for other revenue areas ensuring timely payment of amounts due?		—	—	—			
31. Are rates of taxes, fines, fees, and services periodically reviewed and approved by the legislative body?			—	—			
32. Are programs of tax exemption or relief periodically reviewed and approved by the legislative body?			—	—			
33. Are utility rate schedules authorized by the legislative body?			—	—			

ASSERTIONS

- 34. Do procedures exist providing for timely notification of the accounting department at the time tax, service, or other billings or claims are prepared and rendered?
- 35. Do numerical or batch-processing controls exist over tax, fee, service, or other billings?
- 36. Do controls exist over the billing of miscellaneous revenues (for example, sidewalk replacement and tree removal assessments)?
- 37. Do procedures exist to prevent the interception or alteration by unauthorized persons of billings or statements after preparation but before they are mailed?
- 38. Does an individual independent of receivables record keeping promptly investigate disputes with billing amounts that are reported by taxpayers or service recipients?
- 39. Do controls exist providing reasonable assurances that restricted revenues are expended only for restricted purposes?

**Collection**

- 40. Is restrictive endorsement placed on incoming checks as soon as received?
- 41. Do procedures exist providing reasonable assurances that interest and penalties are properly charged on delinquent taxes, fees, or charges for service?
- 42. Do procedures exist providing for the timely filing of liens on property for nonpayment in all cases permitted by law?
- 43. Do controls exist surrounding the collection, timely deposit, and recording of collections in the accounting records at each collection location?
- 44. Is the general accounting department notified of cash receipts from separate collection centers on a timely basis?
- 45. If payments are made in person, are receipts for payment used and accounted for and balanced to collections?
- 46. Are amounts collected on behalf of other governments segregated and remitted on a timely basis?
- 47. Are taxes and fees collected by another unit of government monitored to assure timely receipt and are amounts received subjected to reviews for reasonableness?
- 48. Are delinquent accounts reviewed and considered for charge-off on a timely basis?
- 49. Are write-offs or other reductions of receivables formally approved by senior officials not involved in the collection function?
- 50. Do procedures exist providing for execution of all legal remedies to collect charged-off or uncollectible accounts, including tax sale of property, liens, and so forth?

**Accounts Receivable Record Keeping**

- 51. Do controls in the system exist that provide assurances that individual receivable records are posted only from authorized source documents?

Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
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ASSERTIONS

	Existence or Occurrence	Complete- ness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
52. Are aggregate collections on accounts receivable reconciled against postings to individual receivable accounts?		—		—			
53. Are statements of account balance mailed on a timely basis, where appropriate (for example, in proprietary funds)?			—	—			
<b>General Ledger</b>							
54. Are trial balances of individual receivable accounts prepared on a timely basis?				—			
55. Are trial balances reconciled with general ledger control accounts and are reconciling items investigated by someone other than accounts receivable clerks?		—		—			
56. Are aged accounts receivable balances periodically reviewed by supervisory personnel?				—	—		
57. Do procedures exist providing for timely and direct notification of the accounting department of billings and collection activities?		—		—			
<b>Grant and Entitlement Monitoring</b>							
<b>Grants</b>							
58. Is responsibility for monitoring grant activities properly fixed?			—				
59. Is grant activity monitored from a centralized location?	—		—				
60. Do procedures exist to monitor compliance with—							
• Financial reporting requirements?			—				
• Use of funds and other conditions in accordance with grant terms?	—		—	—			
• Timely billing of amounts due under grants?		—	—				
61. Is grant activity accounted for so that it can be separated from the accounting for locally funded activities?				—	—		
62. Is there a system for obtaining grantor approval before incurring expenditures in excess of budgeted amounts or for unbudgeted expenditures?			—				
63. Are grant revenues and disbursements processed under the same degree of controls applicable to the organization's other transactions (budget, procurement, etc.)?	—	—	—	—	—		
64. Are requirements included in subgrantee agreements that the subgrantee comply with the primary grant agreement conditions as well as the grantee's standards?			—				
65. Do reasonable procedures and controls exist to provide assurances of compliance with recipient eligibility requirements established by grants?			—				
66. Is an indirect cost allocation plan established?	—		—	—			
67. Is the plan approved by all grantor agencies?			—	—			
68. Is audit cognizance established for rates generated by the plan?				—			
<b>Entitlements</b>							
69. Is the amount of funds received compared with the amount anticipated by a responsible official and are unusual variances investigated?		—		—			

Audit Tests of Controls  
Substantive Tests

ASSERTIONS

- 70. Do procedures exist to ensure that funds received are spent in accordance with legal requirements and spending restrictions?
- 71. Are statistical or data reports that form the basis for revenue distribution reviewed by a responsible official before submission?

	Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
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Phase 1:	L	L	L	L	L		
Preliminary Risk Assessment	M	M	M	M	M		
	H	H	H	H	H		
Phase 2:	L	L	L	L	L		
Final Risk Assessment—Based on audit tests of controls	M	M	M	M	M		
	H	H	H	H	H		

**.220 D. Capital Assets**

**Segregation of Duties**

1. Are responsibilities for initiating, evaluating, and approving capital expenditures, leases, and maintenance or repair projects segregated from those for project accounting, property records, and general ledger functions?
2. Are responsibilities for initiating capital asset transactions segregated from those for final approvals that commit government resources?
3. Are responsibilities for the project accounting and property records functions segregated from the general ledger function?
4. Are responsibilities for the project accounting and property records functions segregated from the custodial function?
5. Are responsibilities for the periodic physical inventories of capital assets assigned to responsible officials who have no custodial or record keeping responsibilities?
6. If EDP is used, is the principle of segregation of duties maintained within processing activities?

**Procedural Controls**

*Authorization*

7. Are those individuals authorized to initiate capital asset transactions identified and is there clear definition of the limits of their authority?
8. Are guidelines established with respect to key considerations such as prices to be paid, acceptable vendors and terms, asset quality standards, and the provisions of grants or bonds that may finance the expenditures?
9. Is a separate capital projects budget prepared?

*Executive or Legislative Approval*

10. Is written executive or legislative approval required for all significant capital asset projects or acquisitions?
11. Do procedures exist for authorizing, approving, and documenting sales or other dispositions of capital assets?
12. Do procedures exist for approving decisions regarding financing alternatives and accounting principles, practices, and methods?
13. Do procedures exist providing for obtaining grantor (federal/state) approval, if required, for the use of grant funds for capital asset acquisitions?
14. Are grant-funded acquisitions subjected to the same controls as internally funded acquisitions?
15. Are supplemental authorizations required, including, if appropriate, those of the grantor agency, for expenditures in excess of originally approved amounts?

	ASSERTIONS				Audit Tests of Controls	Substantive Tests	
	Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
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ASSERTIONS

Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference

**Project Accounting**

- 16. Is a qualified employee or independent firm engaged to inspect and monitor technically complex projects?
- 17. Are project cost records established and maintained for capital expenditure and repair projects?
- 18. Do reporting procedures exist for in-progress and completed projects?
- 19. Do procedures exist to identify completed projects so that timely transfers to the appropriate accounts can be made?
- 20. Is the accounting distribution reviewed to ensure proper allocation of charges to fixed asset and expenditure projects?
- 21. If construction work is performed by contractors, do procedures exist to provide for and maintain control over construction projects and progress billings?
- 22. Does the unit of government have the right to audit contractors' records?
- 23. Is the right to audit contractor records during project performance exercised?
- 24. Do audits of contractors cover compliance with EEO, Davis Bacon, and other regulations and contract terms, in addition to costs?

**Asset Accountability**

- 25. Are detail property records maintained for all significant self-constructed, donated, purchased, or leased assets?
- 26. Is the accountability for each asset established?
- 27. Do procedures exist for periodic inventory of documents evidencing property rights (for example, deeds, leases, and the like)?
- 28. Do physical safeguards over assets exist?
- 29. Do procedures exist ensuring that purchased materials and services for capital expenditure and repair projects are subjected to the same levels of controls as exist for all other procurements (for example, receiving, approval, checking)?
- 30. Are detailed property records periodically compared with existing assets?
- 31. Are differences between records and physical counts investigated and are the records adjusted to reflect shortages?
- 32. Do procedures exist ensuring that capital assets are adequately insured?
- 33. Are lease transactions subjected to control procedures similar to those required for other capital expenditures?
- 34. Is equipment properly identified by metal numbered tags or other means of positive identification?
- 35. Are fully depreciated assets carried in the accounting records as a means of providing accounting control?
- 36. Do procedures exist for monitoring the appropriate disposition of property acquired with grant funds?

**General Ledger**

- 37. Are detailed property records periodically reconciled with the general ledger control accounts?
- 38. Do procedures and policies exist to—
  - Distinguish between capital projects' fund expenditures and operating budget expenditures?
  - Identify operating budget expenditures to be capitalized in the fixed asset fund?
  - Distinguish between capital and operating leases?
  - Govern depreciation methods and practices?
- 39. If costs are expected to be charged against federal grants, are depreciation policies or methods of computing allowances in accord with the standards outlined in OMB circulars or grantor agency regulations; if not, is depreciation charged to grants adjusted accordingly?
- 40. Are the accounting records adjusted promptly—both the asset and related allowance for depreciation—when items of plant and equipment are retired, sold, or transferred?

Phase 1:

Preliminary Risk Assessment

Phase 2:

Final Risk Assessment—Based on audit tests of controls

	ASSERTIONS					Audit Tests of Controls	Substantive Tests
	Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
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Phase 1:	L	L	L	L	L		
	M	M	M	M	M		
Preliminary Risk Assessment	H	H	H	H	H		
Phase 2:	L	L	L	L	L		
	M	M	M	M	M		
Final Risk Assessment—Based on audit tests of controls	H	H	H	H	H		

**.230 E. Procurement and Payables**

**Segregation of Duties**

1. Are responsibilities for the requisitioning, purchasing, and receiving functions segregated from the invoice processing, accounts payable, and general ledger functions?
2. Are responsibilities for the purchasing function segregated from the requisitioning and receiving functions?
3. Are responsibilities for the invoice processing and accounts payable functions segregated from the general ledger functions?
4. Are responsibilities for the disbursement preparation and disbursement approval functions segregated from those for recording cash disbursements and general ledger entries?
5. Are responsibilities for the disbursement approval function segregated from those for the disbursement preparation function?
6. Are responsibilities for entries in the cash disbursement records segregated from those for general ledger entries?
7. If EDP is used, is the principle of segregation of duties maintained within processing activities?

**Procedural Controls**

**Requisitioning**

8. Are purchases of goods and services initiated by properly authorized requisitions bearing the approval of officials designated to authorize requisitions?
9. Are requisitions pre-numbered and are those numbers controlled?
10. Is the appropriation to be charged indicated on the purchase requisition by the person requesting the purchase?
11. Before commitment, are unobligated funds remaining under the appropriation verified by the accounting or budget department as sufficient to meet the proposed expenditure?
12. Are requests for special purpose (nonshelf items) materials or personal services accompanied by technical specifications?

**Purchasing**

13. Are purchasing authorizations structured to give appropriate recognition to the nature and size of purchases and the experience of purchasing personnel?
14. Do approval procedures exist for purchase order and contract issuance?
15. Are purchase prices periodically reviewed by a responsible employee independent of the purchasing department?

ASSERTIONS						Audit Tests of Controls	Substantive Tests
Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference	
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ASSERTIONS

	Existence or Occurrence	Comple- ness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
16. Are competitive bidding procedures used?				—			
17. If practicable, are contract or purchasing officer's areas of responsibility rotated on a regular basis?	—						
18. Do provisions in contracts for materials, services, or facilities acquired on other than a fixed price basis provide for an audit of contractors' costs, with payments subject to audit results?			—	—			
19. Do procedures exist for public advertisement of non-shelf item procurements in accordance with legal requirements?	—			—			
20. Are recurring purchases and documentation of the justification for informal rather than competitive bids periodically reviewed?	—			—			
21. Are policies regarding conflicts of interest and business practice policies established, documented, and distributed?	—						
22. Are purchase orders and contracts issued under numerical or some other suitable control?	—	—					
23. Are an adequate number of price quotations obtained before placing orders not subject to competitive bidding?				—			
24. Is splitting orders prohibited to avoid higher levels of approval?	—			—			
25. Are price lists and other appropriate records of price quotations maintained by the purchasing department?				—			
26. Is a record of suppliers who have not met quality or other performance standards by the purchasing department maintained?	—	—					
27. Are procedures modified when funds disbursed under grant or loan agreements and related regulations impose requirements that differ from the organization's normal policies?	—				—		
28. Are procedures instituted to identify, before order entry, costs and expenditures not allowable under grant (federal/state) programs?				—	—		
29. Is an adequate record of open purchase orders and agreements maintained?	—						
30. Are purchases made for the accommodation of employees prohibited or adequately controlled?	—				—		
31. If construction contracts are to be awarded, are bid and performance bonds considered?	—				—		
32. Does predetermining selection criteria exist for awarding personal service or construction contracts and is adequate documentation of the award process required?					—		
33. Are changes to contracts or purchase orders subjected to the same controls and approvals as the original agreement?			—	—			
<b>Receiving</b>							
34. Are receiving reports prepared for all purchased goods?	—						
35. Do procedures exist for the filing of claims against carriers or vendors for shortages or damaged materials?	—						

ASSERTIONS

- 36. Are steps taken to ensure that goods received are accurately counted and examined to see that they meet quality standards?
- 37. Is a permanent record of material received by the receiving department maintained?
- 38. Are receiving reports numerically accounted for or otherwise controlled to ensure that all receipts are reported to the accounting department?
- 39. Are copies of receiving reports sent directly to purchasing, accounting, and, if appropriate, inventory record keeping?
- 40. Is a government technical representative assigned to monitor and evaluate contractor performance and approve receipt of services with respect to procurements of special purpose materials, services, or facilities?
- 41. If a receiving department is not used, do adequate procedures exist to ensure that goods for which payment is made have been received and are verified by someone other than the individual approving payment that goods have been received and meet quality standards?

**Invoice Processing**

- 42. Do invoice processing procedures provide for—
  - Obtainment directly from issuing departments of copies of purchase orders and receiving reports?
  - Comparison of invoice quantities, prices, and terms with those indicated on the purchase order?
  - Comparison of invoice quantities with those indicated on the receiving reports?
  - As appropriate, checking accuracy of calculations?
- 43. Are all invoices received from vendors in a central location, such as the accounting department?
- 44. Do procedures exist ensuring that the accounts payable system is properly accounting for unmatched receiving reports and invoices?
- 45. Are requests for progress payments under long-term contracts related to contractors' efforts and are they formally approved?
- 46. Do procedures exist for processing invoices not involving materials or supplies (for example, lease or rental payments, utility bills)?
- 47. Do procedures exist ensuring accurate account distribution of all entries resulting from invoice processing?
- 48. If applicable, is access to the EDP master vendor file limited to employees authorized to make changes?
- 49. Does the accounting department maintain a current list of those authorized to approve expenditures?
- 50. Do procedures exist for submission and approval of reimbursement to employees for travel and other expenses?

	Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
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37.	—	—		—			
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ASSERTIONS

	Existence or Occurrence	Complete- ness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
51. Is control established by the accounting department over invoices received before releasing them for departmental approval and other processing?	—	—		—			
52. Is the distribution of charges in the accounting department reviewed by a person competent to pass on the propriety of the distribution?				—	—		
53. Are invoices (vouchers) reviewed and approved for completeness of supporting documents and required clerical checking by a senior employee?	—	—					
54. If an invoice is received from a supplier not previously dealt with, are steps taken to ascertain that the supplier actually exists?	—						
55. Are payments made only on the basis of original invoices?	—			—			
56. Is responsibility fixed for seeing that all cash discounts are taken and, if applicable, that exemptions from sales, federal excise, and other taxes are claimed?				—			
57. Are differences in invoice and purchase order price, terms, shipping arrangements, or quantities referred to purchasing for review and approval?	—			—			
58. Does the accounting department record and follow up partial deliveries?		—		—			
59. Are the accounting and purchasing departments promptly notified of returned purchases, and are such purchases correlated with vendor credit advices?	—			—			
60. Is the program and expenditure account to be charged reviewed for propriety and budget conformity?				—	—		
61. Do check signers or other responsible officials determine that restricted revenues are expended only for restricted purposes?			—		—		
62. If applicable, do procedures exist to ensure adjustment of the reserve for encumbrances (obligations) when invoices are prepared for payment?	—			—	—		
<b>Disbursements</b>							
63. Do procedures exist for disbursement approval and warrant or check-signing?	—	—					
64. Is there control over warrant or check-signing machines as to signature plates and usage?	—						
65. Do procedures exist to notify banks when a new signer is authorized or a previous signer leaves the employ of the government?	—						
66. Is the signer furnished with invoices and supporting data and are they reviewed prior to signing the warrant or check?	—	—		—			
67. Are reasonable limits set on amounts that can be paid by facsimile signatures?	—						
68. Are two signatures required on all warrants or checks over a stated amount?	—						
69. Are signature plates maintained in the custody of the person whose facsimile signature is on the plate when not in use?	—						

ASSERTIONS

- 70. Are plates only under the signer's control used and does that person or an appropriate designee record machine readings to ascertain that all checks or warrants signed are properly accounted for?
- 71. Are invoices and supporting documents cancelled by or in the presence of the signer at the time of signing?
- 72. Are signed warrants or checks delivered directly to the mail room, making them inaccessible to persons who requested, prepared, or recorded them?
- 73. Are warrants or checks cross-referenced to vouchers?
- 74. Are warrants or checks controlled and accounted for with safeguards over those unused and voided?
- 75. Is the drawing of warrants or checks to cash or bearer prohibited?
- 76. Do procedures exist ensuring that warrants or checks that have been signed and issued are recorded promptly?

**Accounts Payable Encumbrances or Obligations**

- 77. Are statements from vendors compared on a regular basis with recorded amounts payable?
- 78. If an encumbrance (obligation) system is used, are outstanding purchase orders reconciled to the reserve for encumbrances (obligations) on a monthly basis?
- 79. Are encumbrance (obligation) entries recorded only on the basis of approved purchase orders?
- 80. Do procedures exist ensuring that accounts payable and encumbrances (obligations) are applied against the appropriate account?
- 81. Do procedures exist ensuring that department heads are notified of payments made against accounts payable and encumbrances (obligations)?

**General Ledger**

- 82. Are trial balances of reserve for encumbrances (obligations) and accounts payable prepared on a regular basis?
- 83. Are trial balance footings checked and traced to the individual items as well as comparing the total to the general ledger balance by an employee other than the accounts payable clerk?
- 84. Are transactions between funds in all affected funds posted in the same accounting period and on a timely basis?

**Grant and Entitlement Monitoring**

- 85. Are grants disbursed only on the basis of approved applications?
- 86. Are reporting and compliance requirements defined (for example, in regulations) and communicated to grantees?
- 87. Do procedures exist to monitor grantee compliance with grant terms?
- 88. Are financial operations of grantees subjected to periodic and timely audit?

	Existence or Occurrence	Complete- ness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
70. Are plates only under the signer's control used and does that person or an appropriate designee record machine readings to ascertain that all checks or warrants signed are properly accounted for?	—			—			
71. Are invoices and supporting documents cancelled by or in the presence of the signer at the time of signing?	—			—			
72. Are signed warrants or checks delivered directly to the mail room, making them inaccessible to persons who requested, prepared, or recorded them?	—						
73. Are warrants or checks cross-referenced to vouchers?	—			—			
74. Are warrants or checks controlled and accounted for with safeguards over those unused and voided?	—	—					
75. Is the drawing of warrants or checks to cash or bearer prohibited?	—						
76. Do procedures exist ensuring that warrants or checks that have been signed and issued are recorded promptly?	—	—		—	—		
<b>Accounts Payable Encumbrances or Obligations</b>							
77. Are statements from vendors compared on a regular basis with recorded amounts payable?	—			—			
78. If an encumbrance (obligation) system is used, are outstanding purchase orders reconciled to the reserve for encumbrances (obligations) on a monthly basis?	—			—	—		
79. Are encumbrance (obligation) entries recorded only on the basis of approved purchase orders?	—				—		
80. Do procedures exist ensuring that accounts payable and encumbrances (obligations) are applied against the appropriate account?	—			—	—		
81. Do procedures exist ensuring that department heads are notified of payments made against accounts payable and encumbrances (obligations)?	—			—	—		
<b>General Ledger</b>							
82. Are trial balances of reserve for encumbrances (obligations) and accounts payable prepared on a regular basis?		—		—	—		
83. Are trial balance footings checked and traced to the individual items as well as comparing the total to the general ledger balance by an employee other than the accounts payable clerk?		—		—	—		
84. Are transactions between funds in all affected funds posted in the same accounting period and on a timely basis?				—	—		
<b>Grant and Entitlement Monitoring</b>							
85. Are grants disbursed only on the basis of approved applications?	—			—			
86. Are reporting and compliance requirements defined (for example, in regulations) and communicated to grantees?					—		
87. Do procedures exist to monitor grantee compliance with grant terms?			—		—		
88. Are financial operations of grantees subjected to periodic and timely audit?	—	—	—	—			

	ASSERTIONS					Audit Tests of Controls	Substantive Tests
	Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
89. Are recipients monitored sufficiently and on a timely basis to permit curtailment of any abuse before complete funds disbursement?	—	—	—	—			
90. Are funds disbursed to grantees only on an as-needed basis?	—			—			
91. Does the level of grant approval authority appear appropriate?	—	—					
92. Is failure by grantees to meet financial reporting requirements investigated on a timely basis?			—	—	—		
93. Are grantees required to evidence correction of previously detected deficiencies before approval of an extension or renewal of a grant?	—		—		—		
94. Do entitlement procedures exist ensuring that statistics or data used to allocate funds are accurately accumulated (for example, census bureau forms)?				—	—		
95. Are statements of recipient compliance required with entitlement conditions (for example, statement of assurances) to be filed and does a responsible official review them?			—		—		
96. Are audited financial statements or other compliance requirements of entitlement recipients reviewed on a timely basis and are unusual items investigated?			—	—	—		
Phase 1:	L	L	L	L	L		
	M	M	M	M	M		
Preliminary Risk Assessment	H	H	H	H	H		
Phase 2:	L	L	L	L	L		
	M	M	M	M	M		
Final Risk Assessment—Based on audit tests of controls	H	H	H	H	H		

ASSERTIONS

Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
—	—					
—	—		—			
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**.240 F. Employee Compensation**

**Segregation of Duties**

1. Are responsibilities for supervision and timekeeping functions segregated from personnel, payroll processing, disbursement and general ledger functions?
2. Are responsibilities for the payroll processing function segregated from the general ledger function?
3. Is payroll distribution supervised by employees—
  - Who are not responsible for hiring or firing employees?
  - Who do not approve time reports?
  - Who take no part in payroll preparation?
4. Are responsibilities for initiating payments under employee benefit plans segregated from accounting and general ledger functions?
5. Is the payroll bank account reconciled regularly by employees independent of all other payroll transaction processing activities?
6. If EDP is used, is the principle of segregation of duties maintained in processing activities?

**Procedural Controls**

***Personnel***

7. Are all changes in employment (additions and terminations), salary and wage rates, and payroll deductions properly authorized, approved, and documented?
8. Are notices of additions, separations, and changes in salaries, wages, and deductions promptly reported to the payroll-processing function?
9. Are appropriate payroll records maintained for accumulated employee benefits (vacation, pension data, etc.)?
10. Are terminating employees interviewed as a check on departure and as a final review of any termination settlement by the personnel department?
11. Do written personnel policies exist?
12. Are controls established to ensure that payroll costs charged to grants are in compliance with grant agreements?
13. Are payroll and personnel policies governing compensation in accordance with the requirements of grant agreements?
14. Are wages at or above the federal minimum wage?

***Supervision/Timekeeping***

15. Are hours worked, overtime hours, and other special benefits reviewed and approved by the employee's supervisor?
16. Do records and procedures exist for timekeeping and attendance?
17. Are time cards or other time reports reviewed for completeness and approved by the employee's supervisor?

	ASSERTIONS					Audit Tests of Controls	Substantive Tests
	Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
18. If time cards are used, are they punched only by the employees to whom they are issued?	—						
19. Is the time clock placed in a position where it can be observed by a supervisor?	—						
20. Do procedures exist for authorizing, approving, and recording vacations, holidays, and sick leave and is compensatory time controlled and approved?	—			—	—		
<b>Payroll Processing</b>							
21. Do controls exist over payroll preparation?			—				—
22. Are changes to the EDP master payroll file approved and documented?			—				—
23. Is access to the EDP master payroll file limited to employees who are authorized to make changes?							—
24. Are completed payroll registers reviewed and approved before disbursements are made?				—			—
25. Are documents supporting employee benefit payments (such as accumulated vacation or sick leave) reviewed before disbursements are made?				—			—
26. Are comparisons (reconciliations) of gross pay of current to prior period payrolls reviewed for reasonableness by a knowledgeable person not otherwise involved in payroll processing?				—			—
27. Is the payroll (examination of authorizations for changes noted on reconciliations) reviewed by an employee not involved in its preparation?				—			—
28. Is the distribution of dollars and hours of gross pay balanced with the payroll registers, and reviewed by someone independent but knowledgeable in this area?				—			—
29. Is a comparison to amounts appropriated and budgeted included in the review?				—			—
30. Are payroll advances to officials and employees prohibited or are they subjected to appropriate review?							—
<b>Disbursement</b>							
31. Are signature plates and the use of the payroll check-signing machines kept under control of the official whose name appears on the signature plate or an employee to whom he had delegated that responsibility?							—
32. Is a log maintained that reconciles the counter on the check-signing machine with the number of checks issued in each payroll?			—	—			—
33. Is a separate, imprest-basis, payroll bank account maintained?			—	—			—
34. Is the payroll bank account reconciled on a regular basis?			—	—			—
35. Are payroll check endorsements compared, on a test basis, with signatures on file by someone independent of the payroll department?				—		—	—
36. Is someone independent of the payroll department comparing payments made in cash, which require signed receipts, with signatures on file on a test basis?				—		—	—

	ASSERTIONS					Audit Tests of Controls	Substantive Tests
	Existence or Occurrence	Completeness	Rights and Obligations	Valuation or Allocation	Presentation and Disclosure	Program or W/P Reference	Program Reference
37. Is the supply of unused payroll checks controlled?				—		—	—
38. Are employees required to provide identification before being given checks or pay envelopes?				—			—
39. Are employees prohibited from accepting another employee's pay?				—			—
40. Are unclaimed wages returned to a custodian independent of the payroll department?				—			—
41. Do employees who distribute checks or pay envelopes make a report of unclaimed wages directly to the accounting department?				—		—	—
42. Are payments of unclaimed wages made at a later date only upon presentation of appropriate evidence of employment and are they approved by an officer or employee who is not responsible for payroll preparation or time reporting?				—			—
43. Are W-2 forms compared to payroll records and mailed by employees not otherwise involved in the payroll process?				—			—
44. Do procedures exist for investigating returned W-2s?				—		—	—
45. Are payroll checks periodically distributed by the internal auditors to ascertain that employees exist for all checks prepared?				—			—
<b>General Ledger</b>							
46. Do adequate account coding procedures exist for classification of employee compensation and benefit costs so that such costs are recorded in the proper general ledger account?				—	—		
47. Are accrued liabilities for unpaid employee compensation and benefit cost properly recorded or disclosed?		—	—	—	—		
Phase 1:	L M	L M	L M	L M	L M		
Preliminary Risk Assessment	H	H	H	H	H		
Phase 2:	L M	L M	L M	L M	L M		
Final Risk Assessment—Based on audit tests of controls	H	H	H	H	H		



## **IV. Administrative Controls**

- .250** When conducting audits in accordance with the Single Audit Act of 1984, the auditor needs to identify the administrative controls that need to be in place in order to properly administer its federal assistance programs.
- .260** These controls are normally established by an entity based on the major requirements with which the entity must comply. Paragraphs .330 through .410 are common control procedures which need to be documented and tested to support the auditor's report on internal administrative controls.
- .270 A. General Compliance Requirements**
- 1. Political Activity (Compliance Supplement)**
- a. Ordinances prohibiting partisan political activity.
  - b. Posters stating the prohibition against partisan political activity.
  - c. Employee policy statement, handbook or policy manual prohibiting partisan political activity.
  - d. Expenditure approval process, i.e., expenditures reviewed by a person who is knowledgeable of this restriction.
- 2. Davis-Bacon Act (Compliance Supplement)**
- a. The practice of obtaining prevailing wage rates published in the Federal Register or obtained from the Department of Labor and comparing these rates with rates paid by contractors or subcontractors based on payroll records submitted to the grantee.
  - b. The practice of interviewing contractors' or subcontractors' laborers to verify their wage rates and to compare them to the prevailing wage rate.
  - c. The practice of posting prevailing wage rates and the provisions of the Davis-Bacon Act at job sites.
  - d. Existence of provisions in contracts expressly requiring compliance with Davis-Bacon Act.
  - e. Assignment of responsibility to monitor contractors for compliance with contract terms, including Davis-Bacon provision.
  - f. Periodic requests of the Division of Labor Standards for their findings regarding the existence of any discriminatory practices by the grantee.
- 3. Civil Rights (Compliance Supplement)**
- a. Existence of a civil rights policy—prohibiting discrimination.
  - b. Existence of an affirmative action policy—encouraging the use of minority firms and employment of individuals from minority groups.
  - c. Methods of communicating the civil rights/affirmative action policy such as posters, notations on letter-head, etc.
  - d. Accumulation of data and preparation of periodic reports reflecting status in achieving affirmative action goals.
  - e. Designated compliance officer to receive and process civil rights inquiries and complaints.
  - f. Self-evaluation procedures to ensure compliance by grantee.
  - g. Practice of holding open meetings to ensure the public is knowledgeable of the grantee's management philosophy and major policy issues.
  - h. Practice of holding public hearings regarding such topics as the use of federal funds and the location of federally financed facilities.
  - i. Published grievance procedures.
  - j. Distribution of policies and grievance procedures via the employee handbook.
- 4. Cash Management (Compliance Supplement)**
- a. Practice of deferring request for reimbursement until after the related expenditure is incurred.
  - b. Existence of a cash log showing expenditures and cash balances for federal financial programs.
  - c. Assignment of responsibility for requesting grant drawdowns to a person who has access to and utilizes the cash log and is knowledgeable of the cash management requirements.
  - d. Utilization of adequate cash forecasting methods (when grant reimbursements are requested prior to incurring the expenditure).
  - e. Reviewed and documented approval of grant drawdown requests by a person knowledgeable of the cash management restrictions.

- f. Inclusion of pertinent requirements in grantee's investment policy.
- g. Depository agreement stipulating FDIC/FSLIC and segregation of account requirements.
- h. Inclusion in requests for banking services of pertinent requirements.

#### **5. Relocation Assistance and Real Property Acquisition (Compliance Supplement)**

- a. The existence of a policy statement compatible with federal regulations regarding relocation assistance and real property acquisition.
- b. The existence of a "relocation officer," i.e., the assignment of a person to monitor compliance with federal requirements.
- c. Proper training, copies of regulations and other procedures to ensure that persons responsible for administering programs involving relocation or real property acquisition are made aware of federal requirements.
- d. Utilization of a checklist of federal requirements by persons responsible for administering programs involving relocation or real property acquisition.
- e. Practice of sending pamphlets to persons being relocated, informing them of their rights and the prescribed procedures.
- f. Practice of requesting written acknowledgement of persons being relocated that the required procedures and rights were made available to them.
- g. Existence of a review function over the acquisition of real property for compliance with federal requirements.

#### **6. Federal Financial Reports (Compliance Supplement)**

- a. Tickler file to ensure reports (including grant closeout reports) are filed timely (preferably centralized).
- b. Assignment of responsibility for preparing reports (perhaps included as a duty in the employee's job description).
- c. Policy of requiring review and written approval of federal financial reports for accuracy and timeliness of submission.
- d. Periodic documented reconciliations of federal financial reports to the general ledger (or to work sheets that are reconciled to the general ledger).

#### **7. Allowable Costs/Cost Principles (OMB Circular A-87)**

- a. Review of expenditures by a person knowledgeable of the provisions of OMB Circular A-87.
- b. Involvement in the grant application/budget process by a person knowledgeable of the provisions of OMB Circular A-87.
- c. Utilization of a checklist denoting allowable, unallowable and possibly unallowable costs by persons authorizing and/or reviewing expenditures charged to grant programs.
- d. Existence of written policies regarding expenditures eligible for federal reimbursements.
- e. Utilization of a person knowledgeable of indirect cost principles for preparation of the plan.
- f. Assignment of responsibility for reviewing indirect cost allocations to a person knowledgeable of the requirements.
- g. Periodic documented reconciliation of costs accumulated in the indirect cost pool to the general ledger.
- h. Utilization of an outside expert to prepare or periodically review the indirect cost allocation plan and/or adherence to the plan.

#### **8. Drug-Free Workplace Act**

- a. Existence of drug-free workplace policy.
- b. Designated compliance officer.
- c. Tickler file to ensure grant certifications are filed timely for each grant.
- d. Checklist or sign-off sheet to ensure policy is distributed to employees paid with federal funds.
- e. Assignment of responsibility for reporting violations to the Federal government.

#### **9. Administrative Requirements (Common Rule)**

- a. Interest earned on advances:
  - (1) Existence of cash log showing interest earned on advances.
  - (2) Assignment of responsibility to remit such interest to appropriate Federal Agency at least quarterly.

- b. Period of availability of funds:
- (1) Review of expenditures to ensure charges result from obligations of the funding period unless carry-over of unobligated balances is permitted.
  - (2) Assignment of responsibility to liquidate all obligations incurred under the award no later than 90 days after the end of the funding period.
  - (3) Tickler file to ensure liquidation of obligations and submission of annual Financial Status Report (SF 269).
- c. Program income:
- (1) Establishment of records to track program income (and costs to generate program income if Federal Agency authorizes netting of income and costs.)
  - (2) Assign responsibility for ensuring that current program income is deducted from current allowable costs in determining federal drawdowns or reimbursements.
  - (3) When authorized by Federal Agencies, assign responsibility of ensuring program income is used only in authorized manner. For example:
    - program income is added to the total funds committed to the project; or
    - program income is used to meet cost sharing or matching requirements.
  - (4) Establish a grant “Master Control” sheet that indicates how program income is to be used on each grant.
- d. Real property:
- (1) Maintenance of real property records, including sources of financing, percentage of federal ownership, cost, and other pertinent information.
  - (2) Periodic reviews made to ensure real property is used for the originally authorized purposes.
  - (3) Assign responsibility for obtaining disposition instructions for real property and disposing of real property no longer needed for the originally authorized purpose through:
    - Retention of title.
    - Sale of property.
    - Transfer of title.
- e. Equipment:
- (1) Existence of fixed asset inventory system, which include sources of financing for fixed assets, percentage of federal ownership, location cost, and other pertinent information.
  - (2) Documentation in fixed asset manual of federal requirements relating to frequency of conducting inventory (every two years), transfer, property utilization, property disposition, and accounting.
  - (3) Review of fixed asset purchases, maintenance, safeguarding, transfers, and dispositions by a person knowledgeable of the requirements.
- f. Supplies:
- (1) Maintenance of inventory records of unused supplies.
  - (2) Establish a policy regarding unused and unneeded supplies and the requirement to compensate the awarding Agency for its share.
- g. Subawards to debarred and suspended parties:
- (1) Assign responsibility for ensuring that awards are not made to any debarred or suspended parties.
- h. Procurement:
- (1) Incorporation of federal procurement standards in grantee’s purchasing policy.
  - (2) Knowledge of procurement-related restrictions by persons involved in the review and award of contracts
  - (3) Review of purchase requisitions aid/or purchase orders by persons knowledgeable of procurement requirements.
- i. Subgrants:
- (1) Inclusion of a provision for compliance with the Common Rule in every subgrant.
  - (2) Inclusion of other significant provisions in every subgrant.
  - (3) Policy to make subgrantees aware of the regulations imposed on them.

j. Revolving Fund repayments:

- (1) Establish revolving fund records that include information necessary to track repayments.
- (2) Establish policy to ensure repayments are made on a timely basis.

**.280 B. Example of Specific Requirements**

**Major Program—Specific Compliance Requirements  
Community Development Block Grant**

Besides documenting and testing the internal administrative controls over the general compliance requirements, the internal administrative controls over program-specific requirements need to be documented and tested. The controls and control procedures may vary significantly among governments so the individual circumstances in a particular government need to be examined. This section provides an example of the types of questions that may be asked to provide information about internal administrative controls over specific program requirements.

**A. Types of services allowed or unallowed**

1. What control procedure does the entity have in place to ensure that activities funded by the program are for allowable purposes and meet one of the national objectives?
2. What control procedure does the entity have in place to ensure that not more than 20 percent of the total grant is expended for planning and administration?

**B. Eligibility**

The auditor is not expected to make tests for recipient eligibility.

**C. Matching, level of effort, and/or earmarking requirements**

There are no matching, level of effort, or earmarking requirements.

**D. Reporting requirements**

1. What control procedure does the entity use to ensure that the grantee performance report is fully completed and submitted within two months after the end of each program year?
2. What control procedures are in place to ensure other Federal reports required by the program are identified, fully completed and submitted on a timely basis?

**E. Special tests and provisions**

1. What control procedures exist to ensure that program funds are not obligated or expended before the receipt of HUD's approval of a Request for Release of Funds (RROF) and environmental certification?
2. How does the entity ensure that all projects requiring an environmental review receive one?
3. What procedures do you employ to ensure that income earned under this program, if any, is properly accounted for and utilized in accordance with federal laws and regulations?
4. Describe the accounting processing involved from initiating the transaction to its inclusion in the financial statements, including how the computer is used to process data.

This understanding involves knowledge of the ways in which transactions are valued, classified, recorded, and summarized in the journals and ledgers.

After gaining an understanding of the direct flow of accounting information from its origin through the processing system to its compilation in the general ledger, an understanding of the processing steps, including how transactions are valued, classified, recorded and summarized, and control points at each processing step needs to be obtained.

5. Describe the financial reporting process including the extent of client procedures to prepare significant accounting and disclosure estimates. Also, describe the way in which general ledger information is summarized to arrive at the amounts and disclosures reported in the financial statements.

## **AAM Section 5100**

### **Designing the Audit Program**

The objective of an audit is to express an opinion on whether financial statements present fairly in all material respects, an entity's financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. This conclusion may be expressed only when the auditor has formed such an opinion on the basis of an audit performed in accordance with generally accepted auditing standards. The procedures that the auditor plans to use to gather evidence are outlined in an audit program. Audit procedures unique to single audit engagements are covered in Sections XIV, Federal Financial Assistance and XV, Financial Assistance Supplement.

**AAM Section 5600**

**Illustrative Audit Program for State and Local Governmental Units**

The material included in this section is presented for illustrative purposes only. The illustrative audit objectives and illustrative audit procedures are neither all-inclusive nor are they prescribed minimums. The illustrative audit procedures are numbered merely to organize the materials; those numbers are not intended to imply completeness or a prescribed sequence. The nature, extent and timing of the auditing procedures to be applied on a particular engagement are a matter of professional judgment to be determined by the auditor based on the specific facts and circumstances.

	DONE	WP	
	BY	DATE	REF.

**I. Engagement Planning and Administration**

**A. Engagement Planning Procedures**

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Determine that a signed engagement letter, proposal or contract covering the current engagement is on file. Read letter for any special provisions.                  | _____ | _____ | _____ |
| 2. Determine that decision to accept engagement (in case of new client) or to retain client has been documented.  | _____ | _____ | _____ |
| 3. Review those suggested reference materials shown in AAM section 5610 which are relevant to the scope of the engagement.  | _____ | _____ | _____ |
| 4. If this is a new client, ascertain that required communications in SAS 7, <u>Communications Between Predecessor and Successor Auditors</u> , if any, have been made. | _____ | _____ | _____ |
| 5. Ascertain that all applicable independence rules, particularly those related to performance of accounting services, have been complied with.                         | _____ | _____ | _____ |
| 6. Obtain an initial, overall understanding of the client's operations:   |       |       |       |

	<u>DONE</u>	<u>WP</u>
	<u>BY</u>	<u>DATE REF.</u>
a. Determine type of local government (home rule status, etc.).	_____	_____
b. Inquire of management and assess management's identification of local laws which pertain to the basic plan or organization and related responsibilities of executive, legislative, and administrative personnel.	_____	_____
c. Inquire if the local government is required to have a single audit. Contact the entity's oversight or cognizant audit agency to determine if the agency has any concerns or special instructions which need to be taken into consideration in planning and conducting the audit.	_____	_____
d. Determine that audit will satisfy relevant legal, regulatory, or contractual requirements.	_____	_____
e. If audit does not satisfy d above, communicate this to the management and the audit committee (or others with equivalent authority, such as Board of Directors, Board of Trustees) either in writing or orally. If orally, document in workpapers.	_____	_____
f. List local government officials and members of governing body by name and title.	_____	_____
g. Determine types of reports that need to be issued.	_____	_____
h. Determine which governmental units are to be included in the financial statements as a possible component unit of the reporting entity.	_____	_____
i. Determine the extent of involvement of other audit firms and inquire about their independence and professional reputation. Clearly define the responsibilities of each audit firm and which firm is the primary auditor.	_____	_____

	<u>DONE</u>		<u>WP</u>
	<u>BY</u>	<u>DATE</u>	<u>REF.</u>
j. Review prior year's reports and financial statements.	_____	_____	_____
k. Review prior year's working papers and permanent file, particularly the following:			
(1) Internal control questionnaires, memoranda, and related summary evaluation notes.	_____	_____	_____
(2) Engagement time summary records.	_____	_____	_____
(3) Adjusting and reclassification entries.	_____	_____	_____
(4) Audit partner memoranda regarding consultations on accounting and auditing matters.	_____	_____	_____
(5) Suggestions for next audit.	_____	_____	_____
l. Review most recent management letter.	_____	_____	_____
m. Discuss engagement with firm personnel previously assigned and/or responsible for nonaudit services.	_____	_____	_____
n. Review any interim financial statements or reports for current year to determine whether amounts and relationships appear reasonable in comparison to prior year.	_____	_____	_____
o. Review client's correspondence file.	_____	_____	_____
p. Obtain copies of meetings of the governing body and relevant committees.	_____	_____	_____
q. Obtain copy (including all amendments) of client's current budget. (For all funds legally budgeted.)	_____	_____	_____
r. Obtain current property tax calendar.	_____	_____	_____
s. Obtain a list of all related parties.	_____	_____	_____



	<u>DONE</u> <u>BY</u>	<u>DATE</u>	<u>WP</u> <u>REF.</u>
t. Make appropriate notations regarding matters to be discussed with audit partner, manager or in-charge auditor.	_____	_____	_____
7. Discuss the following (and other appropriate) matters with appropriate client personnel (including the audit committee of the governing body, if applicable):			
a. Changes in operations, including pending/planned changes.	_____	_____	_____
b. Changes in accounting methods or accounting principles applied.	_____	_____	_____
c. Changes in key personnel (accounting and data processing).	_____	_____	_____
d. Significant accounting or reporting problems.	_____	_____	_____
e. Principal findings of internal auditor, if applicable.	_____	_____	_____
f. Changes in data processing methods or equipment.	_____	_____	_____
g. Significant legal matters and contingencies.	_____	_____	_____
h. Disposition of prior year's management letter points.	_____	_____	_____
i. Disposition of prior year's reportable conditions.	_____	_____	_____
j. Extent of client assistance to be provided.	_____	_____	_____
k. Timing of preliminary audit work, inventory observation, confirmation procedures, final audit work, etc.	_____	_____	_____
l. Due dates for delivery of report(s).	_____	_____	_____
m. Closing information to be prepared (check applicable items):			

	<u>DONE</u>		<u>WP</u>
	<u>BY</u>	<u>DATE</u>	<u>REF.</u>
(1) Closing Journal Entries	_____	_____	_____
(2) Post Closing Trial Balance	_____	_____	_____
(3) Audit Adjusting Entries	_____	_____	_____
(4) Reversing Journal Entries	_____	_____	_____
n. Other Matters (prepare list and attach to program).	_____	_____	_____
o. Make appropriate notations regarding matters to be discussed with audit partner, manager or in-charge auditor.	_____	_____	_____
8. Identify significant accounting estimates which should be made and recorded by the client.	_____	_____	_____
9. If client has internal audit staff, read reports and related correspondence, and consider possible effect of internal audit work and findings on scope of the examination.	_____	_____	_____
10. Contact oversight or cognizant agency when applicable, to obtain its perspective on key compliance issues.	_____	_____	_____
11. Obtain an understanding of the effect of laws, regulations, and ordinances having a direct and material effect on the financial statements:			
a. Obtain from management a list of such laws and regulations.	_____	_____	_____
b. Assess the accuracy and completeness of the list provided by management by considering knowledge obtained from prior audits, discussions with the entity's chief financial officer, legal counsel or grant administrator, the review of agreements, the review of minutes, inquiries of audit oversight organizations and grantors, and the review of available information obtained from (state) societies of CPAs or associations of governments. Document the assessment for inclusion in the working papers.	_____	_____	_____

DONE            WP  
BY   DATE   REF.

12. Obtain an understanding of the client's internal control structure, including those aspects relating to compliance with the laws and regulations identified above, to assist in the planning of the determination of the nature, timing, and extent of tests to be performed:

a. Complete questionnaires and prepare flowcharts and/or narrative descriptions relating to the client's policies, procedures, and records relevant to audit planning. Consideration should be given to all three elements of the internal control structure to obtain sufficient knowledge of the design of relevant policies and procedures to determine whether those policies and procedures have been placed in operation.

\_\_\_\_\_

b. Assess control risk for financial statement assertions, including those relating to compliance with laws and regulations that have a direct and material effect on the financial statements.

\_\_\_\_\_

(1) For each assertion for which control risk is assessed at the maximum, record that conclusion in the working papers.

\_\_\_\_\_

(2) For each assertion for which a lowering of control risk below the maximum is deemed both feasible and efficient:

(a) Identify the key policies and procedures which will be subjected to audit tests.

\_\_\_\_\_

(b) Conduct audit tests to determine how the policies or procedures were applied, the consistency with which they were applied, and by whom they were applied. Working papers relating to the tests

DONE            WP  
BY   DATE   REF.

should describe the policy or procedure tested, test objectives, sample selection, test criteria, test results, and conclusions concerning the effectiveness of policies or procedures.

\_\_\_\_\_

(c) Document conclusions in the working papers concerning the assessed level of control risk for the assertion.

\_\_\_\_\_

13. Perform appropriate analytical procedures and determine effect on the nature, timing, and extent of other audit procedures. For selected account balances and classes of transactions, compare recorded amounts to:

a. Prior year amounts, adjusted for known changes from the prior year to the current year;

\_\_\_\_\_

b. Current year amounts to budgeted amounts and/or forecasts;

\_\_\_\_\_

c. Other financial/nonfinancial information for which plausible relationships exist; and

\_\_\_\_\_

d. Prepare notes concerning unusual or unexpected transactions, events, amounts, ratios or trends that might have planning ramifications. Also, explain the dispositions made of such matters.

\_\_\_\_\_

14. Use the understanding obtained of the internal control structure and consider factors influencing audit risk to evaluate the risk of material misstatements arising from errors, irregularities, and/or illegal acts, including the risk of management misrepresentations. Document conclusions in the working papers and their effects on engagement staffing, extent of supervision, and overall strategy for the conduct and scope of audit.

\_\_\_\_\_

	<u>DONE</u>		<u>WP</u>
	<u>BY</u>	<u>DATE</u>	<u>REF.</u>
15. Use the information obtained or developed concerning materiality levels, the internal control structure and the related assessments of control risk, the results of analytical procedures, and the evaluation of other factors impacting on audit risk to plan:			
a. The nature, timing, and extent of substantive tests;	_____	_____	_____
b. Staffing requirements and related levels of supervision;	_____	_____	_____
c. The overall strategy for the conduct and scope of audit; and	_____	_____	_____
d. Revisions to the audit program.	_____	_____	_____
16. Estimate time required to complete audit procedures and prepare appropriate planning documents (engagement time summary, scheduling and staffing summary, etc.).	_____	_____	_____
17. Hold a planning conference among the audit partner, manager, or in-charge auditor (and firm specialists, if deemed necessary), and:			
a. Discuss information obtained and results of procedures performed to date based on completion of previous steps.	_____	_____	_____
b. Discuss any special audit risks or client conditions (see Appendix B) deemed to exist.	_____	_____	_____
c. Ascertain that recent accounting/auditing pronouncements affecting the client have been considered.	_____	_____	_____
d. Develop plans to solve known or anticipated accounting/auditing problems.	_____	_____	_____
e. Determine tentative minimum amount for judging materiality of possible past adjustments.	_____	_____	_____

	<u>DONE</u>		<u>WP</u>
	<u>BY</u>	<u>DATE</u>	<u>REF.</u>
f. Discuss types/general formats of reports to be rendered and planned delivery dates.	_____	_____	_____
g. Discuss possible rotation of certain auditing procedures as well as areas of audit emphasis.	_____	_____	_____
h. Discuss methods to maximize the amount of interim work to be done.	_____	_____	_____
i. Obtain and record audit partner's approval for:			
(1) Technique(s) used to document the internal control structure.	_____	_____	_____
(2) Approach used to audit computer generated records.	_____	_____	_____
(3) Use of statistical sampling methods.	_____	_____	_____
(4) Assessment of audit risk and materiality.	_____	_____	_____
(5) Audit programs.	_____	_____	_____
(6) Time budget and staffing of engagement.	_____	_____	_____
(7) Prepare a memorandum summarizing the results of the planning conference, particularly all decisions reached.	_____	_____	_____
18. Prepare listing of schedules/analyses to be prepared by client (and working paper set-ups, if considered necessary) and deliver to client.	_____	_____	_____
<b>B. Engagement Administration and Supervision Procedures</b>			
1. Communicate results of planning conference with client and firm personnel to staff persons assigned to the engagement, particularly matters relating to portions of engagement assigned to them.	_____	_____	_____

	<u>DONE</u>	<u>WP</u>
	<u>BY</u>	<u>DATE REF.</u>
2. Schedule timing of work to be done on priority basis, assigning top priorities to more significant or problem areas of engagement.	_____	_____
3. Obtain all documents and information required for the permanent file and remove superseded materials for filing in a closed file.	_____	_____
4. Accumulate all points to be included in the report on the internal control structure or in the management letter (or to be communicated verbally to the client).	_____	_____
5. Ascertain that all steps in all audit programs have been considered and/or completed, and that any modifications to the programs resulting from changed conditions have been properly approved and documented.	_____	_____
6. Review financial statements and notes and determine:		
a. The adequacy of evidence gathered in response to unusual or unexpected balances identified during audit planning or audit performance;	_____	_____
b. The existence of unusual or unexpected balances or relationships which have not been evaluated; and	_____	_____
c. Whether additional evidential matter is necessary to explain unexpected differences between reported amounts and expected amounts or relationships.	_____	_____
7. Ascertain that working papers include appropriate memoranda regarding consultations with firm specialists, outside consultations and resolution of differences of opinion, if any, among firm personnel regarding accounting/auditing matters.	_____	_____

	<u>DONE</u>	<u>WP</u>
	<u>BY</u>	<u>DATE REF.</u>
8. Determine that differences between the accounting records and the evidential matter gathered during the application of audit procedures have been evaluated as to both their quantitative and qualitative effects.	_____	_____
9. In the event that illegal acts were noted, determine that:		
a. An understanding of the nature of the acts was obtained;	_____	_____
b. The circumstances in which it occurred were evaluated;	_____	_____
c. The effect of the illegal act on the financial statements was considered; and	_____	_____
d. Such other auditing procedures as indicated necessary in the circumstances were performed.	_____	_____
10. Determine that required communications, proper as to form and content, have been made as necessary to disclose irregularities and/or illegal acts noted during the course of the audit.	_____	_____
11. Determine whether the audit work performed indicates that a substantial doubt exists with regard to the local government's ability to continue as a going concern for a reasonable period of time. If a substantial doubt exists:		
a. Obtain information about management's plans, assess the expected effectiveness of the plans, and gather evidence to evaluate pertinent provisions of those plans and to support audit conclusions concerning the local government's ability or inability to continue as a going concern;	_____	_____
b. Evaluate the adequacy of the related financial statement disclosures; and	_____	_____



	<u>DONE</u> <u>BY</u>	<u>DATE</u>	<u>WP</u> <u>REF.</u>
c. Consider the effects on the audit report.	_____	_____	_____
12. Determine that the following matters have been communicated to those who have responsibility for oversight of the financial reporting process (for example, the audit committee or others with equivalent authority or responsibility) and include documentation to that effect in the working papers:			
a. Management's responsibility for the internal control structure and the financial statements;	_____	_____	_____
b. Audit conducted in accordance with GAAS or GAGAS provides reasonable, rather than absolute, assurance;	_____	_____	_____
c. Significant accounting policy implementation or change;	_____	_____	_____
d. Significant unusual transactions and the methods used to account for them;	_____	_____	_____
e. Significant accounting policies relating to controversial or emerging areas for which there is no authoritative guidance or consensus;	_____	_____	_____
f. Processes used by management to develop sensitive accounting estimates and the basis for audit conclusions concerning the reasonableness of those estimates;	_____	_____	_____
g. Significant audit adjustments;	_____	_____	_____
h. The auditor's responsibility for other information in documents containing audited financial statements;	_____	_____	_____
i. Disagreements with management;	_____	_____	_____
j. Consultations by management with other accountants;	_____	_____	_____

	<u>DONE</u> <u>BY</u>	<u>DATE</u>	<u>WP</u> <u>REF.</u>
k. Major issues discussed with management prior to retention;	_____	_____	_____
l. Difficulties encountered in performing the audit;	_____	_____	_____
m. Irregularities and/or illegal acts;	_____	_____	_____
n. Significant deficiencies in the design or operation of the internal control structure ("reportable conditions"); and,	_____	_____	_____
o. Other matters relevant to oversight responsibilities.	_____	_____	_____
13. Ascertain that all working papers have been headed, indexed, cross-referenced, initialed, and dated. If they were initially prepared by client, they should be marked "Prepared by Client" or "PBC."	_____	_____	_____
14. Accumulate all pending items in one listing, and dispose of all other follow-up or "TO DO" sheets and any other similar notations in the files.	_____	_____	_____
15. Ascertain that all time has been posted to the daily time control records, and record totals on the engagement time summary. Write explanations for any significant variations between budgeted and actual time.	_____	_____	_____

This audit program section has been completed in accordance with firm policy.

	Date
Done by	_____
Reviewed by	_____

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## II. Cash

### Financial Statement Assertions:

1. Existence or occurrence.
2. Completeness.
3. Rights and obligations.
4. Valuation or allocation.
5. Presentation and disclosure.

### Objectives:

- A. Cash exists—To determine that cash balances as stated in the balance sheet properly represent cash and cash items on hand, in banks, or in transit. (Assertions 1, 2, 3, 4, and 5)
- B. Properly classified—To determine that cash is properly classified in the financial statements and adequate disclosure (by segregation or otherwise) is made of restricted or committed funds and of cash not subject to immediate withdrawal and accounts with credit balances. (Assertions 3, 4, and 5)
- C. Credit Risk Classified Properly—To determine that deposits are properly classified as to credit risk as required by GASB Statement No. 3. (Assertions 4 and 5)
- D. GAAP consistency—To determine that applicable accounting principles have been consistently applied. (Assertions 4 and 5)

**NOTE:** The letters preceding each of the above audit objectives serve as identification codes. These codes are presented in the objective column when the audit step accomplishes the specific objective. If the letter appears in brackets, i.e., [A], [B], etc., the audit procedure only secondarily accomplishes the objective.

**DONE**      **WP**  
BY   DATE   REF.

Procedures:

A. Evaluation of Internal Control Structure

1. Review the documentation and conclusions resulting from the steps taken to understand and test the internal control structure policies, procedures, and records relevant to planning the audit of cash.

\_\_\_\_\_

2. Consider the understanding obtained of the internal control structure, the assessed level of control risk (together with assessment of inherent risk), and the acceptable level of detection risk to determine the nature, timing, and extent of substantive tests.

\_\_\_\_\_

3. Revise the audit program, as appropriate, following the consideration of the internal control structure and related audit risks.

\_\_\_\_\_

B. Analytical Procedures

1. Review the planning procedures applicable to analytical procedures performed on cash and consider the result of the procedures in determining the nature, timing, and extent of other audit procedures.

\_\_\_\_\_

2. Revise the audit program, as appropriate, following consideration of the results of the analytical procedures.

\_\_\_\_\_

3. If analytical procedures are used for substantive testing purposes, document the basis for the expected relationship, the results of the comparison of the recorded amount to the expectation, and the results of the evaluation of unexpected differences between the recorded amount and the expectation.

\_\_\_\_\_

**DONE**            **WP**  
**BY**   **DATE**   **REF.**

C. Other Auditing Procedures

- |     |   |       |       |       |
|-----|---|-------|-------|-------|
| A   | 1. Where material, count cash on hand, reconcile balances on hand to required amounts and obtain signature of custodian acknowledging return of funds intact.   | _____ | _____ | _____ |
| A   | 2. Confirm year-end balances by direct correspondence with the banks for all bank accounts that were open during any part of the year, and obtain list of authorized check signers for permanent file.  | _____ | _____ | _____ |
| [A] | 3. Obtain copies of client's bank reconciliations at the end of the year.   | _____ | _____ | _____ |
| A   | 4. Substantiate reconciling items as follows:   |       |       |       |
|     | a. Whenever audit work is performed prior to the client receiving the bank statement, or whenever otherwise deemed appropriate, obtain directly from the bank, bank cutoff statements and related supporting documents.   | _____ | _____ | _____ |
|     | b. Trace deposits in transit to subsequent bank statements <u>and</u> to cash receipts records. Examine the receipted deposit slip to determine whether the funds were deposited on, or prior to, the balance sheet date and whether there was any extraordinary delay between the date received per books and date deposited per bank. | _____ | _____ | _____ |
|     | c. Test checks dated on or before balance sheet date but clearing after the balance sheet date to determine that they appear on the list of outstanding checks.   | _____ | _____ | _____ |
|     | d. Compare checks listed on the list of outstanding checks in excess of \$_____, including both those that have been subsequently paid and those that have not been paid, to  |       |       |       |

		DONE	WP
		<u>BY</u>	<u>DATE</u> <u>REF.</u>
	the cash disbursements records as to amount.	_____	_____
	e. Investigate the date of issuance for any large checks not cleared in the month following year-end. For those checks actually issued after the balance sheet date, record audit adjustments.	_____	_____
	f. Trace any significant transfers between banks or accounts of a bank (including investment accounts) near year-end to verify both transactions have been recorded in the same accounting period.	_____	_____
	g. Investigate any remaining significant reconciling items not covered above.	_____	_____
A	5. Prepare proof(s) of cash for appropriate time periods. Substantiate any deposits in transit as outlined in 4(b) for all periods in which a proof of cash was prepared.	_____	_____
[A]	6. Consider reversing old outstanding checks. (Investigate those over \$_____.)	_____	_____
[A]	7. Review receipts, etc., issued shortly before and shortly after year-end to determine that all cash collected has been recorded in the proper period.	_____	_____
A C	8. Obtain copies of all collateral agreements the local government has with depositories and consider confirming the collateral with the bank or agency holding the collateral securities. Determine if the collateral complies with legal requirements and if the market value is adequate to secure the funds on deposit.	_____	_____
A C	9. Test collateralization throughout the year to determine its adequacy. Note instances in which the local government's uncollateralized deposits during the period significantly ex-	_____	_____

<u>DONE</u>	<u>WP</u>
<u>BY</u>	<u>DATE REF.</u>

ceeded that category of credit risk at balance sheet date.

_____	_____	_____
-------	-------	-------

C 10. Determine if deposits at any time during the year materially exceeded amounts on deposit as of the end of the year. Determine reasons for significant fluctuations (check here if reason is due to normal fluctuating cash flow requirements \_\_\_\_\_).

_____	_____	_____
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A B 11. Identify which individual funds are required by law or other contractual agreement to maintain separate bank accounts and ascertain that separate bank accounts are maintained and note any withdrawal restrictions or other commitments which may exist.

_____	_____	_____
-------	-------	-------

C [D] 12. Review client's classifications as to credit risk for note disclosure.

_____	_____	_____
-------	-------	-------

13. Make appropriate notations regarding matters to be discussed with audit partner, manager, and in-charge auditor.

_____	_____	_____
-------	-------	-------

D. Overall Conclusions

1. In our opinion, we have obtained sufficient and competent evidential matter to provide reasonable assurance that:

a. Cash balances as stated in balance sheet properly represent cash and cash items on hand, in banks or in transit;

_____	_____	_____
-------	-------	-------

b. Cash is properly classified in the financial statements and adequate disclosure (by segregation or otherwise) is made of restricted or committed funds and of cash not subject to immediate withdrawal and accounts with credit balances;

_____	_____	_____
-------	-------	-------

c. Deposits are properly classified as to credit risk as required by GASB Statement No. 3; and,

_____	_____	_____
-------	-------	-------

DONE      WP  
BY   DATE   REF.

d. Applicable accounting principles  
have been consistently applied;

Except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_

Date

\_\_\_\_\_  
Done by

\_\_\_\_\_

\_\_\_\_\_  
Reviewed by

\_\_\_\_\_



The material included in this section is presented for illustrative purposes only. The illustrative audit objectives and illustrative audit procedures are neither all-inclusive nor are they prescribed minimums. The illustrative audit procedures are numbered merely to organize the materials; those numbers are not intended to imply completeness or a prescribed sequence. The nature, extent and timing of the auditing procedures to be applied on a particular engagement are a matter of professional judgment to be determined by the auditor based on the specific facts and circumstances.

### III. Investments

#### Financial Statement Assertions

1. Existence or occurrence.
2. Completeness.
3. Rights and obligations.
4. Valuation or allocation.
5. Presentation and disclosure.

#### Objectives:

- A. Investments exist—To determine that the physical evidence of ownership of investments reported in the financial statements (stock certificates, bonds, notes, etc.) are on hand or held in custody or safekeeping by others for account of the client. (Assertions 1, 2, and 3)
- B. GAAP conformity—To determine that the basis on which the investments are stated is in accordance with generally accepted accounting principles, consistently applied. (Assertions 4 and 5)
- C. Income recognition—To determine that income from investments has been accounted for properly. (Assertions 4 and 5)
- D. Proper classification—To determine that investments and the related income are properly classified and described in the financial statements. (Assertions 4 and 5)
- E. Properly disclosed—To determine that adequate disclosure has been made of the pledging of any investments and credit risks are properly disclosed as required by GASB Statement No. 3. (Assertions 2, 3, and 5)
- F. In accordance with laws—To determine that investments are made in accordance with state and local laws and regulations. (Assertions 3 and 5)

G. GAAP consistency—To determine that applicable accounting principles have been consistently applied. (Assertions 4 and 5)

**NOTE:** The letters preceding each of the above audit objectives serve as identification codes. These codes are presented in the objective column when the audit step accomplishes the specific objective. If the letter appears in brackets, i.e., [A], [B], etc., the audit procedure only secondarily accomplishes the objective.

<b>DONE</b>	<b>WP</b>
<u>BY</u>	<u>DATE REF.</u>

Procedures:

A. Evaluation of Internal Control Structure

1. Review the documentation and conclusion resulting from the steps taken to understand and test the internal control structure policies, procedures, and records relevant to planning the audit of investments.

\_\_\_\_\_

2. Consider the understanding obtained of the internal control structure, the assessed level of control risk (together with the assessment of inherent risk), and the acceptable level of detection risk to determine the nature, timing, and extent of substantive tests.

\_\_\_\_\_

3. Revise the audit program, as appropriate, following the consideration of the internal control structure and related audit risks.

\_\_\_\_\_

B. Analytical Procedures

1. Review the planning procedures applicable to analytical procedures performed on investments and consider the result of the procedures in determining the nature, timing, and extent of other audit procedures.

\_\_\_\_\_

2. Revise the audit program, as appropriate, following consideration of the results of the analytical procedures.

\_\_\_\_\_

		<u>DONE</u>		<u>WP</u>
		<u>BY</u>	<u>DATE</u>	<u>REF.</u>
	3. If analytical procedures are used for substantive testing purposes, document the basis for the expected relationship, the results of the comparison of the recorded amount to the expectation, and the results of the evaluation of unexpected differences between the recorded amount and the expectation.	_____	_____	_____
	<b>C. Other Auditing Procedures</b>			
[F]	1. Obtain an understanding of state and local investment laws and regulations.	_____	_____	_____
[A] [D]	2. Obtain a list of investments owned showing location and identify ownership by fund.	_____	_____	_____
A	3. Confirm or examine each security and compare with the list. Determine that the beginning and ending serial numbers are the same for all securities where there is no activity during the year.	_____	_____	_____
[A]	4. Mail confirmations on securities held by others.	_____	_____	_____
A [D]	5. Verify all changes between date of physical inspection and date of balance sheet.	_____	_____	_____
C [D]	6. Test accrued interest to balance sheet date.	_____	_____	_____
B C	7. Test amortization of premiums (or discount) paid, where applicable.	_____	_____	_____
C [D]	8. Verify collections of interest.	_____	_____	_____
D [G]	9. Obtain market values at balance sheet date and value of collateral and investigate significant differences from recorded values to determine if any write-downs are necessary.	_____	_____	_____
F	10. Test investment transactions during the year to determine that investments are in accordance with statutory requirements (if applicable).	_____	_____	_____

		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE REF.</u>
C [D]	11. Test interest revenue accounts in the various funds and reconcile interest income to the investment transactions.	_____	_____
[C] [D]	12. Select investment transactions, test the income thereon and trace to amounts recorded in the various funds.	_____	_____
C D	13. Verify that all investments and related income were applied to the proper fund of ownership.	_____	_____
E [G]	14. Review GASB Statement No. 3 disclosures:		
	a. Any significant violations of state statutes, local charters, resolutions or ordinances, grant regulation, or internal policies in the investment of local funds.	_____	_____
	b. Determine whether basis of valuation (e.g., cost, market value, or lower of cost or market value) is in accordance with GAAP, and that appropriate allowances and/or write-downs have been provided. (Especially treasury bills.)	_____	_____
	c. Any commitments at the balance sheet date to resell securities under yield maintenance repurchase agreements. Yes _____ No _____	_____	_____
	d. Determine types of investments made during the year but not owned as of the balance sheet date. For example: _____ State Investment Pool _____ Repurchase Agreement _____ Federal Securities _____ Other	_____	_____
	e. Any reverse repurchase agreements used during the year. If yes, See GASB Statement No. 3. Yes _____ No _____	_____	_____

		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE REF.</u>
E	15. Review client's classification of investments as to credit risk for note disclosure.	_____	_____
E [G]	16. Review client's disclosures under GASB Statement No. 3 for overall adequacy.	_____	_____
	17. Make appropriate notations regarding matters to be discussed with audit partner, manager, and in-charge auditor.	_____	_____
F	18. Review minutes of governing body or investment committee for approval of transactions.	_____	_____
F	19. Review for unusual transactions (high risk or churning).	_____	_____
F [G]	20. Review management's intended holding period and liquidity requirements in the case of a decline in market value.	_____	_____
[E] F [G]	21. Concerning repurchase agreements:		
	a. Review terms of outstanding repurchase commitments. Terms should include the types and coupon rate of collateral and the repurchase date and prices.	_____	_____
	b. Consider reputation and reliability of collateral holders. Those holders should be bank or trust companies that are independent of the broker-dealer arranging the transaction and that specialize in providing safe-keeping services.	_____	_____
	c. Review the reputation and financial position of broker-dealers or other parties to the transaction.	_____	_____
	d. Consider the financial credibility and legal responsibility of any company or agency that is insuring completion of the transaction.	_____	_____

<u>DONE</u>	<u>WP</u>
<u>BY</u>	<u>DATE REF.</u>

e. Review broker's advice and other documentation regarding the completion of the repurchase transaction during the period following the balance sheet date. \_\_\_\_\_

f. Review and evaluate internal audit procedures covering repurchase agreement activities. \_\_\_\_\_

A 22. If the client is a buyer/lender (and surrendered possession of the securities):

a. Examine securities held or request confirmation of securities held in safekeeping and determine who holds legal title to the securities. \_\_\_\_\_

b. If custodian is of uncertain or questionable reputation and reliability, obtain third party review or perform procedures concerning controls over the safekeeping of the security of the custodian. \_\_\_\_\_

c. Test collateral value of securities. \_\_\_\_\_

D. Overall Conclusions

1. In our opinion, we have obtained sufficient and competent evidential matter to provide reasonable assurance that:

a. The physical evidence of ownership of investments reported in the financial statements (stock certificates, bonds, notes, etc.) are on hand or held in custody or safekeeping by others for account of the client; \_\_\_\_\_

b. The basis on which the investments are stated is in accordance with generally accepted accounting principles, consistently applied; \_\_\_\_\_

c. Income from investments has been accounted for properly; \_\_\_\_\_

**DONE      WP**  
**BY   DATE   REF.**

d. Investments and the related income are properly classified and described in the financial statements;

\_\_\_\_\_

e. Adequate disclosure has been made of the pledging or hypothecation of any investments and credit risks are properly disclosed as required by GASB Statement No. 3;

\_\_\_\_\_

f. Investments are made in accordance with state and local laws and regulations; and,

\_\_\_\_\_

g. Applicable accounting principles have been consistently applied;

Except as follows:

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

\_\_\_\_\_

Date

\_\_\_\_\_  
 Done by

\_\_\_\_\_

\_\_\_\_\_  
 Reviewed by

\_\_\_\_\_

The material included in this section is presented for illustrative purposes only. The illustrative audit objectives and illustrative audit procedures are neither all-inclusive nor are they prescribed minimums. The illustrative audit procedures are numbered merely to organize the materials; those numbers are not intended to imply completeness or a prescribed sequence. The nature, extent and timing of the auditing procedures to be applied on a particular engagement are a matter of professional judgment to be determined by the auditor based on the specific facts and circumstances.

#### IV. Revenues and Receivables

##### Financial Statement Assertions:

1. Existence or occurrence.
2. Completeness.
3. Rights and obligations.
4. Valuation or allocation.
5. Presentation and disclosure.

##### Objectives:

- A. To determine that revenue accounts and related income and expense accounts include all transactions that relate to the period. (Assertions 1, 2, and 5)
- B. To determine that receivables are authentic and probably collectible. (Assertions 1 and 3)
- C. To determine that valuation allowances and deferred revenue are appropriate. (Assertions 4 and 5)
- D. To determine that the descriptions, classifications, and related disclosures are adequate and not misleading. (Assertion 5)
- E. To determine that all loss contingencies related to revenue are identified and reported or disclosed. (Assertions 2, 3, and 5)
- F. To determine that applicable accounting principles have been consistently applied. (Assertions 4 and 5)

**NOTE:** The letters preceding each of the above audit objectives serve as identification codes. These codes are presented in the objective column when the audit step accomplishes the specific objective. If the letter appears in brackets, i.e., [A], [B], etc., the audit procedure only secondarily accomplishes the objective.



**DONE**      **WP**  
BY   DATE   REF.

Procedures:

A. Evaluation of Internal Control Structure

1. Review the documentation and conclusions resulting from the steps taken to understand and test the internal control structure policies, procedures, and records relevant to planning the audit of revenue and receivables.

\_\_\_\_\_

2. Consider the understanding obtained of the internal control structure, the assessed level of control risk (together with assessment of inherent risk), and the acceptable level of detection risk to determine the nature, timing, and extent of substantive tests.

\_\_\_\_\_

3. Revise the audit program, as appropriate, following the consideration of the internal control structure and related audit risks.

\_\_\_\_\_

B. Analytical Procedures

1. Review the planning procedures applicable to analytical procedures performed on revenue and receivables and consider the result of the procedures in determining the nature, timing, and extent of other audit procedures.

\_\_\_\_\_

2. Revise the audit program, as appropriate, following consideration of the results of the analytical procedures.

\_\_\_\_\_

3. If analytical procedures are used for substantive testing purposes, document the basis for the expected relationship, the results of the comparison of the recorded amount to the expectation, and the results of the evaluation of unexpected differences between the recorded amount and the expectation.

\_\_\_\_\_

**DONE**      **WP**  
BY   DATE   REF.

C. Other Auditing Procedures—Revenue

1. General property taxes.

A [B]	a. Determine that the appropriate tax was properly levied.	_____	_____	_____
	(1) Determine that property assessments have been made in compliance with laws.	_____	_____	_____
	(2) Determine that property tax rates are in compliance with laws.	_____	_____	_____
	(3) Determine that appropriate tax status (e.g., tax-exempt, commercial) has been applied.	_____	_____	_____
[A] D	b. Confirm current tax settlements and trace tax distribution into funds.	_____	_____	_____
[A] D	c. Determine that tax allocations among funds are in accordance with original levy.	_____	_____	_____
A B D [F]	d. Confirm amounts of special or supplemental tax distributions and trace into proper funds, relating to:			
	(1) Back taxes collected.	_____	_____	_____
	(2) Tax objections overruled.	_____	_____	_____
A C [E]	e. Compute adjustments to allowance for uncollectibles or deferred revenue accounts.	_____	_____	_____
A [B]	f. Determine that property taxes were properly authorized for nonpayment of taxes and the major receipts were properly recorded on a timely basis.	_____	_____	_____
D	g. Determine that taxing policies and procedures are properly disclosed in the notes to the financial statements.	_____	_____	_____
[A]	h. Determine that all properties are included in the tax roll.	_____	_____	_____

**DONE**      **WP**  
**BY**   **DATE**   **REF.**

2. Sales, income, or other taxes.

- |     |   |       |       |       |
|-----|---|-------|-------|-------|
| A B | a. Review the methods used by the local government to reasonably assure that all taxes due have been remitted (for example, systems providing for the cross-referencing of returns to a data base showing prior returns, registered corporations, etc.) | _____ | _____ | _____ |
| A   | b. Determine that proper accruals have been made to record sales, income, or other taxes held by other governments at fiscal year end.  | _____ | _____ | _____ |
| A B | c. Evaluate the reasonableness of amounts estimated for income taxes receivable or refunds payable.   | _____ | _____ | _____ |
| A   | d. Select a sample of returns and verify that the tax liability was computed in accordance with governing laws and regulations and that related payments were deposited and properly recorded in the accounting records.                                | _____ | _____ | _____ |
| A B | e. Test year-end cutoff of recording self-assessed taxes.   | _____ | _____ | _____ |

3. Revenue from federal, state and county agencies.

- |     |   |       |       |       |
|-----|---|-------|-------|-------|
| A B | a. Confirm revenue received from federal, state and county agencies directly with the appropriate agency. | _____ | _____ | _____ |
| A C | b. Determine that grant revenues earned based on expenditures are properly accrued.                       | _____ | _____ | _____ |
|     | c. Review significant grant applications and related monitoring and grant reports.                        | _____ | _____ | _____ |
| A B | d. Review minutes of legislative proceedings to identify grants received and their restrictions.          | _____ | _____ | _____ |
|     | e. Review monitoring procedures used by management.   | _____ | _____ | _____ |

		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE REF.</u>
	4. Licenses and permits.		
[A] [B]	a. Determine licenses and permits in effect and rates set by ordinance.	_____	_____
	(1) On a test basis, trace collections from persons or businesses ordinarily required to pay fees to accounting records.	_____	_____
A	b. Trace cash entries from license and permit stub books to cash receipts records on a test basis.	_____	_____
A	c. Compare licenses and permit revenue by totals to previous year and explain any material variation.	_____	_____
A	d. Reconcile inventories of licenses and permits to revenues where appropriate.	_____	_____
A B	e. Review applications or renewal bills for proper charge, and trace collections to accounting records.	_____	_____
	5. Franchise fees.		
A B	a. Review franchise ordinances and compare fees as indicated therein with amounts received.	_____	_____
	6. Fines.		
A B F	a. Review client's procedures for accounting for arrest tickets and determine that tickets are being properly disposed of through the collection of cash or authorized dismissal.	_____	_____
A B C	b. Verify collection of fines.	_____	_____
A	c. Compare fine revenue by totals to previous years and explain any material variation.	_____	_____
A B	d. Determine that fines are distributed in accordance with governing regulations.	_____	_____

		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE</u> <u>REF.</u>
	7. Utility or other enterprise revenues.		
.[A] B	a. Examine rate schedules and authorization for charges.	_____	_____
A B	b. Where charges are based on variable quantities or volume of usage, test records of usage such as meter reader reports.	_____	_____
A B	c. Test computations of billings for a selected period, watching to see that authorized rates are in use, especially for local government officials and employees.	_____	_____
A	d. Trace collections for a selected period into the accounts receivable subledger and cash receipts.	_____	_____
A B	e. Determine reasonableness of enterprise revenues when compared to records showing the production of goods or services.	_____	_____
	8. Sale of property and equipment.		
B	a. Review minutes of corporate body for authority to sell property and equipment.	_____	_____
A	b. Trace sale proceeds to cash receipts records.	_____	_____
A	c. Determine that major dispositions have been removed from the property and equipment records.	_____	_____
A	d. Determine that proceeds are credited to the proper fund as required by law and that any receivables are properly classified.	_____	_____
	9. Rentals of property and equipment.		
A B	a. Examine authorizing laws and regulations, schedules, contracts, leases and other documents governing the use of public property by others.	_____	_____

		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE</u> <u>REF.</u>
A [D]	b. On a test basis, compare the amounts of billings against terms of rental agreements.	_____	_____
A	c. Trace collections into cash receipts for selected periods.	_____	_____
	10. Special assessments.		
A	a. Trace collections of assessments, interest and penalties into cash receipts for selected periods.	_____	_____
A D	b. Trace the public benefit portion of all assessments into the public benefit fund or debt service fund.	_____	_____
D	c. On an overall basis determine that collections are being accounted for in the proper assessment roll.	_____	_____
	11. Interfund transfers.		
D	a. Obtain or prepare a schedule of transfers between funds.	_____	_____
D	b. Determine authorizations and amount of such transfers by review of the budget or minutes of the client's governing body.	_____	_____
D [F]	c. Determine that all transfers are properly classified as operating or equity and reported accordingly in the financial statements.	_____	_____
	12. Other revenues.		
A	a. Schedule any other revenue accounts of material amount and perform audit procedures determined necessary.	_____	_____
A [C]	b. Review estimate of unbilled revenues and compare to subsequent billings.	_____	_____
	D. Other Auditing Procedures—Receivables		
	1. All Receivables.		

DONE      WP  
BY   DATE   REF.

a. If accounts receivable are not being confirmed, document the reason. One of the following is acceptable:

(1) Accounts receivable are immaterial to the financial statements.

\_\_\_\_\_

(2) Use of confirmations would be ineffective.

\_\_\_\_\_

(3) Combined assessed level of inherent and control risk is low (as noted in a.(1) above), and the assessed level, in conjunction with other evidence (analytical procedures or other substantive tests) reduced audit risk to an acceptably low level for applicable financial statement assertions.

\_\_\_\_\_

2. Property taxes receivable.

A B

a. Examine or obtain by confirmation the following:

(1) Assessed valuation for the tax levy year under review.

\_\_\_\_\_

(2) Tax rates and tax extensions by fund.

\_\_\_\_\_

(3) A listing by dates of property taxes distributed to the local government.

\_\_\_\_\_

D

b. Trace property tax levies and remittances to the various funds to determine that revenues were properly allocated to the appropriate funds in accordance with governing laws and regulations.

\_\_\_\_\_

A [C]

c. Where the local government records property tax remittances on the cash basis of accounting, determine at the end of the fiscal year that such revenue has been applied to the respective property tax receivable accounts, by tax levy years.

\_\_\_\_\_

		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE REF.</u>
A	d. Determine that the current tax levies, by funds, have been journalized to reflect the levy as a property tax receivable, and the credit to a revenue line item.	_____	_____
[A] B	e. Review the tax rates, by funds, to determine that they do not exceed statutory limits.	_____	_____
[A] B	f. Review the tax extensions as computed by the county, and compare with the client's tax-levy ordinance.	_____	_____
C E	g. Review the adequacy of the provision for uncollectible taxes based on prior collection experience.	_____	_____
	3. Interfund accounts.		
A D	a. Obtain a schedule of all interfund and intrafund account balances.	_____	_____
A	b. Determine that they are in reciprocal balance.	_____	_____
B	c. Review minutes of local government and appropriate bond ordinances for authorization of interfund activity.	_____	_____
A D	d. Trace interfund transactions between funds and to underlying documentation.	_____	_____
A B C D	e. Review ending balances of accounts as to:		
	(1) Aging of balances.	_____	_____
	(2) Reason for transactions.	_____	_____
	(3) Method of liquidation anticipated.	_____	_____
	(4) Proper reporting classification.	_____	_____
	(5) Collectibility.	_____	_____



		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE REF.</u>
4. Special assessments receivable.			
A	a. Obtain a list of all assessments receivable balances and compare the total of these balances to the general ledger control accounts.	_____	_____
B	b. Verify on a test basis that the calculations for the installments receivable are correct.	_____	_____
A	c. Determine on a test basis that the proper amount of interest has been charged to outstanding assessment installments.	_____	_____
A B	d. Consider confirmation of unpaid assessment balances directly with property owners, especially significant or old balances.	_____	_____
[A] C	e. Trace the deferred public benefit portion into the long-term debt account group.	_____	_____
B	f. Review all adjustments to the accounts for authority.	_____	_____
B	g. Inquire as to any pending legal suits regarding bonds or vouchers.	_____	_____
5. Other receivables.			
A B	a. Obtain a list of each type of receivable, such as from other governmental units or others:		
	(1) Sales taxes.	_____	_____
	(2) State income taxes.	_____	_____
	(3) Utility taxes.	_____	_____
	(4) Court fines.	_____	_____
	(5) Grants.	_____	_____
	(6) Motor fuel tax.	_____	_____
	(7) All other (employees, suppliers, citizens, etc.).	_____	_____

		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE REF.</u>
B C E	b. Obtain an aged listing of accounts receivable. Test the accuracy of the listing.	_____	_____
A	c. Reconcile balance with general ledger.	_____	_____
A B	d. Consider confirmation by mail of individual accounts with large balances.	_____	_____
A B C E	e. Obtain or list subsequent collections of past due items to date of examination.	_____	_____
B E	f. Review uncollectible accounts written off for authority and propriety.	_____	_____
B E	g. Review uncollectibility of accounts with responsible personnel and determine proper allowance is established for possible uncollectible accounts.	_____	_____
B E	h. Review all large credits issued during the year.	_____	_____
A	i. Cross check between the receivable account and the related revenue account.	_____	_____
<b>E. Other Auditing Procedures—Cash Receipts</b>			
A	1. Foot and cross-foot cash journal for a selected period and trace totals to ledger accounts.	_____	_____
A	2. See that cash receipts are deposited intact and timely up to the date the audit is made, or for a selected sample thereof, that is, that each day's deposits is equal to the previous day's receipts.	_____	_____
<b>F. Overall Conclusions</b>			
	1. In our opinion, we have obtained sufficient and competent evidential matter to provide reasonable assurance that:		

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**BY**   **DATE**   **REF.**

- a. Revenue accounts and related income and expense accounts include all transactions that relate to the period;
- b. Receivables are authentic, properly classified, and probably collectible;
- c. Judgments on which valuations, allowances and deferred revenue are based are arrived at rationally and responsibly;
- d. Descriptions, classifications and related disclosures are adequate and not misleading;
- e. All loss contingencies related to the revenue cycle are identified and recorded or disclosed; and,
- f. Applicable accounting principles have been consistently applied.

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Date

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 Reviewed by

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## V. Expenditures, Expenses and Payables

### Financial Statement Assertions:

1. Existence or occurrence.
2. Completeness.
3. Rights and obligations.
4. Valuation or allocation.
5. Presentation and disclosure.

### Objectives:

- A. Expenditure/expense accounts include all costs and expenses applicable to the period and all losses and estimated future expenses that should be reflected in the period and, that classification is consistent with the accounting system and generally accepted accounting principles. (Assertions 1, 2, 4, 5)
- B. Amounts payable are properly authorized, represent the correct amounts of currently payable items and reflect all outstanding obligations. (Assertions 2, 3, 5)
- C. Prepaid and accrued accounts are properly stated. (Assertion 4)
- D. Account descriptions, classifications and related disclosures are adequate and not misleading. (Assertion 5)
- E. All loss contingencies are identified and recorded or disclosed. (Assertions 2, 3, 5)
- F. Legal requirements relating to purchasing, payrolls, and disbursements have been complied with. (Assertion 3)

**NOTE:** The letters preceding each of the above audit objectives serve as identification codes. These codes are presented in the objective column when the audit step accomplishes the specific objective. If the letter appears in brackets, i.e., [A], [B], etc., the audit procedure only secondarily accomplishes the objective.

**DONE**            **WP**  
BY   DATE   REF.

Procedures:

I. Evaluation Of Internal Control Structure

A. Review the documentation and conclusions resulting from the steps taken to understand and test the internal control structure policies, procedures, and records relevant to planning the audit of expenditures.

\_\_\_\_\_

B. Consider the understanding obtained of the internal control structure, the assessed level of control risk (together with assessment of inherent risk), and the acceptable level of detection risk to determine the nature, timing, and extent of substantive tests.

\_\_\_\_\_

C. Revise the audit program, as appropriate, following the consideration of the internal control structure and related audit risks.

\_\_\_\_\_

II. Analytical Procedures

A. Review the planning procedures applicable to analytical procedures performed on expenditures of cash and consider the result of the procedures in determining the nature, timing, and extent of other audit procedures.

\_\_\_\_\_

B. Revise the audit program, as appropriate, following consideration of the results of the analytical procedures.

\_\_\_\_\_

C. If analytical procedures are used for substantive testing purposes, document the basis for the expected relationship, the results of the comparison of the recorded amount to the expectation, and the results of the evaluation of unexpected differ-

DONE BY	DATE	WP REF.
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ences between the recorded amount and the expectation.

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III. Other Auditing Procedures—Expenditures/Expenses

A. General—For selected expenditures/expenses (excluding payroll expenditures), perform the following procedures:

A [B]  
[C] F

1. Examine supporting documents and compare to disbursement records, noting:

--	--	--

a. authorization for disbursement and approval of supporting document.

--	--	--

b. data supporting invoice such as purchase order and receiving report.

--	--	--

c. evidence of check of clerical accuracy.

--	--	--

d. cancellation of document.

--	--	--

e. duplicate payment of billing whole or in part.

--	--	--

f. that payment of bill when entered on disbursement or purchase record was charged to proper expenditure and appropriation account or reserve for encumbrances.

--	--	--

g. that appropriation balance was sufficient to receive charge for expenditures.

--	--	--

h. authorized check signer.

--	--	--

i. that discounts were taken when offered.

--	--	--

j. that purchase was recorded in the period received.

--	--	--

B. Disbursements.

[A]

1. Observe control over blank checks.

--	--	--

[A]

2. Review disbursements journal for period under audit for unusual items.

--	--	--

		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE REF.</u>
C. Appropriations.			
F	1. Determine that reported budget amounts are supported by original adopted appropriations adjusted for properly authorized budget amendments.	_____	_____
[A] F	2. Examine budget for the year under audit and determine if related expenditures plus encumbrances are within the appropriations.	_____	_____
F	3. Determine if the appropriation ordinances comply with governing legal provisions and relate directly to tax levy ordinances.	_____	_____
D. Purchases.			
[B] D F	1. Review the applicable ordinance or regulation setting forth the procedure for making purchases, and determine that selected purchases were made or awarded in accordance with these regulations. Bid files should be examined on a test basis for those purchases for which competitive bids are required.	_____	_____
A B	2. Check invoice for correct price and accuracy of mathematics.	_____	_____
A B	3. Compare purchase order, receiving report and invoice.	_____	_____
A	4. Note purchases from local government officials or employees.	_____	_____
E. Payrolls—For selected payroll disbursements, perform the following procedures:			
F	1. Compare the rates of pay shown on the individual payroll records and on the payroll summaries with the salary and appropriation ordinances.	_____	_____
[A] F	2. Examine time cards for approval.	_____	_____

		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE REF.</u>
A B D	3. Determine that payroll amounts on the payroll record are charged to proper appropriation account and that amounts are recorded on individual payroll records.	_____	_____
A B [F]	4. Distribute the payroll checks for any pay period, maintaining control over unclaimed checks until all have been claimed by authorized personnel.	_____	_____
B	5. Compare payroll amounts with time-keeping or attendance records.	_____	_____
A B F	6. Pay special attention to endorsements on payroll checks, noting especially those checks cashed by any department of the local government and investigate thoroughly.	_____	_____
[D] F	7. Verify payment of the various payroll deductions to the proper authority.	_____	_____
[A]	8. For selected employees, verify that appropriate entries were made to the client's leave records.	_____	_____
D	9. Determine if client has a deferred compensation plan. If a plan exists, obtain required information for agency fund and footnote disclosure.	_____	_____
D	10. Determine if local government pays post-retirement health care or life insurance costs. Obtain description of policies and related costs for current year.	_____	_____
	F. Other payroll.		
A B	1. Review for retroactive pay increases, large overtime payments, and other unusual compensation arrangements.	_____	_____
F	2. Review pay rates for compliance with policies or labor contract provisions.	_____	_____



DONE      WP  
BY   DATE   REF.

G. Bond and interest expenditures/expenses.

- |            |   |       |       |       |
|------------|---|-------|-------|-------|
| A B D<br>F | 1. Examine bond ordinances and tax levies for retirement of bonds and interest provisions and other material requirements and test compliance there-with.   | _____ | _____ | _____ |
|            | a. Prepare a statement of general bonded debt to determine that taxes to be received in the future will be adequate to retire all bonds and meet interest payments due.   | _____ | _____ | _____ |
| A B        | 2. Examine cancelled bonds and interest coupons making sure that all are properly cancelled, and reconcile to payments made.  | _____ | _____ | _____ |
| A          | 3. If bonds are registered, confirm with paying agents the receipt of advances shown as having been made by the local government and also the bonds and interest coupons paid and cancelled by paying agency during the year. | _____ | _____ | _____ |
|            | a. Schedule the cash transactions carried on by paying agent's office and make a part of working papers.  | _____ | _____ | _____ |

H. Construction and improvement expenditures.

- |       |  |       |       |       |
|-------|--|-------|-------|-------|
| A B F | 1. Check the minutes for action taken by the governing board pertaining to construction or bond ordinances where applicable.                 | _____ | _____ | _____ |
| C D   | 2. Where federal, state or local government monies are used, check any regulatory laws or regulations issued by that governmental authority. | _____ | _____ | _____ |
| E F   | 3. Determine that amounts paid are in accordance with the terms of contracts.  | _____ | _____ | _____ |
| A D   | 4. Ascertain amounts of contracts payable which are due but unpaid.  | _____ | _____ | _____ |
| A F   | 5. Review bids, contracts, partial payments, changes in orders, etc., in connection with major construction.                                 | _____ | _____ | _____ |

		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE REF.</u>
F	6. Note purchases from local government officials or employees.	_____	_____
A D	7. Trace in-house construction work orders to closing and transfer to GFAAG.	_____	_____
	I. Trust and agency fund expenditures and disbursements.		
D	1. Trace collections into trust and agency funds of the local government on a test basis.	_____	_____
A D	2. Note and examine the properly filed reports supporting payments to other governmental agencies.	_____	_____
A B F	3. For client employee retirement contributions, in addition to the steps noted above, confirm the amount of the local government's actuarial liability to that organization. Also, for any pension funds compute statutory liability.	_____	_____
	J. Other expenditures/expenses.		
A B	1. Determine that expenditures/expenses made by or on behalf of key officers are reasonable.	_____	_____
A	2. Schedule any other expenditure or expense accounts of material amount and perform audit procedures determined necessary.	_____	_____
	IV. Other Auditing Procedures—Liabilities		
	A. Accounts or vouchers payable and encumbrances.		
	1. Obtain schedule of accounts payable and encumbrances at end of audit period. Consider confirmation of large accounts payable balances and trace encumbrances to unfilled purchase orders.	_____	_____
A	2. Reconcile detail of liabilities to general ledger accounts.	_____	_____

		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE REF.</u>
B	3. For selected entries in accounts payable examine underlying documentation.	_____	_____
A B	4. Examine invoices received and payments made subsequent to year-end on a test basis to determine if any should be included in period being audited.	_____	_____
A B	5. Ascertain nature and extent of unencumbered purchase commitments at year end.	_____	_____
B. Deposits.			
C	1. Obtain and reconcile detailed records to general ledger.	_____	_____
C	2. Confirm balances on a test basis.	_____	_____
C	3. If interest is paid, test payments made of interest or interest accrued as of end of period being audited.	_____	_____
C F	4. Review the provisions of any related ordinances and test for compliance.	_____	_____
A C	5. Determine whether deposits are refundable in full or part.	_____	_____
[F]	6. Determine whether records of "bid" or "good faith" deposits are made.	_____	_____
C. Taxes levied or collected for other units of government.			
B	1. Verify collections, payments and balances on hand and collected balances due other units.	_____	_____
B D	2. Determine that such items are recorded as liabilities to others.	_____	_____
D. Accrued salaries and wages.			
B C F	1. If the client accrues salaries and wages and payroll taxes, the accuracy of such accruals should be verified. (Do accruals relate to budget provisions?)	_____	_____

**DONE**      **WP**  
**BY**   **DATE**   **REF.**

E. Taxes or fees collected in advance.

- |     |  |       |       |       |
|-----|--|-------|-------|-------|
| A B | 1. If taxes, licenses or fees have been collected in advance, they should be recorded as deferred revenue. Verify these amounts with reference to supporting documents and consider confirmation of amounts. | _____ | _____ | _____ |
| B D | 2. Set up as a liability, duplicate tax or fee collection not disposed of.   | _____ | _____ | _____ |
| B   | 3. Trace disposition of items recorded at beginning of period.   | _____ | _____ | _____ |

F. Compensated absences.

- |       |   |       |       |       |
|-------|---|-------|-------|-------|
| A B   | 1. Obtain the local government's personnel policies and procedures and review the provisions relating to the accrual and payment of compensated absences. | _____ | _____ | _____ |
| [C] D | 2. Obtain the schedule prepared by the local government to compute the liabilities for compensated absences and determine by appropriate tests that:      |       |       |       |
|       | a. The schedule is arithmetically correct;  | _____ | _____ | _____ |
|       | b. All qualifying employees are included and that all employees included on the schedule are qualified;   | _____ | _____ | _____ |
|       | c. Appropriate salary and benefit rates are applied;  | _____ | _____ | _____ |
|       | d. Leave balances shown by the schedule are consistent with selected employee leave records; and,   | _____ | _____ | _____ |
|       | e. The schedule is correct as to the employing fund.  | _____ | _____ | _____ |
| A D   | 3. Determine that the current and long-term portions of the liability have been recorded in accordance with GASB Codification section C60.                | _____ | _____ | _____ |

		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE REF.</u>
E	G. Review client's file concerning litigation, including attorney's invoices received during and after the period under audit.	_____	_____
E	H. Inquire as to material commitments to purchase or construct property, equipment, etc.	_____	_____
V. Other Auditing Procedures—Prepaid Items			
[C]	A. Summarize the type and amount of other assets and prepaid items such as:		
	1. Unexpired insurance.	_____	_____
	2. Prepaid rent.	_____	_____
	3. Supplies inventories.	_____	_____
	4. Advances.	_____	_____
	5. Unamortized expense.	_____	_____
	6. Deposits.	_____	_____
	7. Other (itemize).	_____	_____
C	B. Ascertain propriety of amounts by review of calculations, supporting documents, related expense accounts, etc.	_____	_____
C	C. Confirm when considered necessary.	_____	_____
VI. Other Auditing Procedures—Cash Disbursements			
[A] [B]	A. Foot and cross-foot cash journals for a selected period and trace totals to ledger accounts.	_____	_____
A	B. Account for all checks issued or voided.	_____	_____
A	C. Examine checks issued during period being audited or for a selected sample thereof, for the following:		
	1. Entry to cash disbursement's records as to number, date, payee and amount.	_____	_____

<u>DONE</u>	<u>WP</u>
<u>BY</u>	<u>DATE REF.</u>

- |  |       |       |       |
|--|-------|-------|-------|
| 2. Authorization of governing body for issuance. | _____ | _____ | _____ |
| 3. Check signers and cosigners.                  | _____ | _____ | _____ |
| 4. Inspect endorsements and signatures.          | _____ | _____ | _____ |

VII. Overall Conclusions

A. In our opinion, we have obtained sufficient and competent evidential matter to provide reasonable assurance that:

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Expenditure/expense accounts include all costs and expenses applicable to the period and all losses and estimated future expenses that should be reflected in the period and that classification is consistent with the accounting system and generally accepted accounting principles; | _____ | _____ | _____ |
| 2. Accounts payable are properly authorized, represent the correct amounts of currently payable items and reflect all outstanding obligations;   | _____ | _____ | _____ |
| 3. Prepaid and accrued accounts are properly stated;   | _____ | _____ | _____ |
| 4. Account descriptions, classifications and related disclosures are adequate and not misleading;  | _____ | _____ | _____ |
| 5. All loss contingencies are identified and recorded or disclosed; and,   | _____ | _____ | _____ |
| 6. Legal requirements relating to purchasing, payrolls, and disbursements have been complied with;   | _____ | _____ | _____ |

Except as follows:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Date

\_\_\_\_\_  
Done by

\_\_\_\_\_  
Reviewed by

The material included in this section is presented for illustrative purposes only. The illustrative audit objectives and illustrative audit procedures are neither all-inclusive nor are they prescribed minimums. The illustrative audit procedures are numbered merely to organize the materials; those numbers are not intended to imply completeness or a prescribed sequence. The nature, extent and timing of the auditing procedures to be applied on a particular engagement are a matter of professional judgment to be determined by the auditor based on the specific facts and circumstances.

## VI. Inventories

### Financial Statement Assertions:

1. Existence or occurrence.
2. Completeness.
3. Rights and obligations.
4. Valuation or allocation.
5. Presentation and disclosure.

### Objectives:

- A. Inventories physically exist, in good condition, unencumbered by pledge or lien. (Assertions 1, 2, 3)
- B. The accounts reflect all inventory held for sale in the ordinary course of operations. (Assertions 3, 5)
- C. Estimates of realizable value are carefully and consistently made. (Assertion 4)

**NOTE:** The letters preceding each of the above objectives serve as identification codes. These codes are presented in the objective column when the audit step accomplishes the specific objective. If the letter appears in brackets, i.e., [A], [B], etc., the audit procedure only secondarily accomplishes the objective.

**DONE**            **WP**  
**BY**   **DATE**   **REF.**

### Procedures:

- A. Evaluation of Internal Control Structure
  1. Review the documentation and conclusions resulting from the steps taken to understand and test the internal control structure policies, procedures, and records relevant to planning the audit of inventories.

\_\_\_\_\_

<u>DONE</u>	<u>WP</u>
<u>BY</u>	<u>DATE REF.</u>

2. Consider the understanding obtained of the internal control structure, the assessed level of control risk (together with assessment of inherent risk), and the acceptable level of detection risk to determine the nature, timing, and extent of substantive tests.

_____	_____	_____
-------	-------	-------

3. Revise the audit program, as appropriate, following the consideration of the internal control structure and related audit risks.

_____	_____	_____
-------	-------	-------

B. Analytical Procedures

1. Review the planning procedures applicable to analytical procedures performed on inventory and consider the result of the procedures in determining the nature, timing, and extent of other audit procedures.

_____	_____	_____
-------	-------	-------

2. Revise the audit program, as appropriate, following consideration of the results of the analytical procedures.

_____	_____	_____
-------	-------	-------

3. If analytical procedures are used for substantive testing purposes, document the basis for the expected relationship, the results of the comparison of the recorded amount to the expectation, and the results of the evaluation of unexpected differences between the recorded amount and the expectation.

_____	_____	_____
-------	-------	-------

C. Other Auditing Procedures

A 1. Observe the taking of physical inventories and make test counts of various items. Record quantities and description of items selected for test counts.

_____	_____	_____
-------	-------	-------

C 2. Ascertain that obsolete and damaged stock has been appropriately identified and valued.

_____	_____	_____
-------	-------	-------

B 3. Ascertain that proper cut-off is effected with respect to purchases and consumption.

_____	_____	_____
-------	-------	-------

A 4. Trace quantities and descriptions per audit test counts into final inventory sheets.

_____	_____	_____
-------	-------	-------



		<u>DONE</u>		<u>WP</u>
		<u>BY</u>	<u>DATE</u>	<u>REF.</u>
B	5. Test clerical accuracy of inventories as to:			
	a. Unit prices.	_____	_____	_____
	b. Extensions.	_____	_____	_____
	c. Footings.	_____	_____	_____
	d. Totals to summaries.	_____	_____	_____
[B] C	6. Select several items included in the inventory test counts and verify prices to determine that the inventory has been consistently valued.	_____	_____	_____
B C	7. Compare the dollar amount of inventory by fund to prior periods and investigate any material fluctuations considering the reasonableness of the change in relation to the expected change.	_____	_____	_____
B	8. Compute and analyze turnover rates for significant inventories.	_____	_____	_____
	9. Make appropriate notations regarding matters to be discussed with audit partner, manager, or in-charge auditor.	_____	_____	_____
D. Overall Conclusions				
	1. In our opinion, we have obtained sufficient and competent evidential matter to provide reasonable assurance that:			
	a. Inventories physically exist, in good condition, unencumbered by pledge or lien;	_____	_____	_____
	b. The accounts reflect all inventory held for sale in the ordinary course of operations;	_____	_____	_____
	c. Cost of inventory items is measured in accordance with generally accepted accounting principles, consistently applied; and	_____	_____	_____

DONE      WP  
BY   DATE   REF.

d. Estimates of realizable value are carefully and consistently made;

Except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

This audit program section has been completed in accordance with firm policy.

Date

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Done by

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Reviewed by

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## VII. Property—Governmental Type Funds

### Financial Statement Assertions:

1. Existence or occurrence.
2. Completeness.
3. Rights and obligations.
4. Valuation or allocation.
5. Presentation and disclosure.

### Objectives:

- A. The property represented by the accounts exists, is owned by the local government, and is unencumbered except as indicated. (Assertions 1, 3)
- B. Additions have been properly recorded, are recorded at the proper amount and are authentic. (Assertions 2, 4, 5)
- C. The cost or other basis of recording property is in accordance with generally accepted accounting principles. (Assertions 4, 5)
- D. Accounting for the use and disposition of property is consistent from period to period and in accordance with generally accepted accounting principles. (Assertion 4, 5)
- E. The control over general fixed assets has been properly established. (Assertion 1)

**NOTE:** The letters preceding each of the above audit objectives serve as identification codes. These codes are presented in the objective column when the audit step accomplishes the specific objective. If the letter appears in brackets, i.e., [A], [B], etc., the audit procedure only secondarily accomplishes the objective.

DONE      WP  
BY   DATE   REF.

Procedures:

A. Evaluation of Internal Control Structure

1. Review the documentation and conclusions resulting from the steps taken to understand and test the internal control structure policies, procedures, and records relevant to planning the audit of property. \_\_\_\_\_
2. Consider the understanding obtained of the internal control structure, the assessed level of control risk (together with assessment of inherent risk), and the acceptable level of detection risk to determine the nature, timing, and extent of substantive tests. \_\_\_\_\_
3. Revise the audit program, as appropriate, following the consideration of the internal control structure and related audit risks. \_\_\_\_\_

B. Analytical Procedures

1. Review the planning procedures applicable to analytical procedures performed on property and consider the result of the procedures in determining the nature, timing, and extent of other audit procedures. \_\_\_\_\_
2. Revise the audit program, as appropriate, following consideration of the results of the analytical procedures. \_\_\_\_\_
3. If analytical procedures are used for substantive testing purposes, document the basis for the expected relationship, the results of the comparison of the recorded amount to the expectation, and the results of the evaluation of unexpected differences between the recorded amount and the expectation. \_\_\_\_\_

C. Other Auditing Procedures

A [B]  
C E

1. When detailed records are maintained, the auditor should test by physical inspection that items are on hand and that the detailed property records are in agreement with the appropriate control accounts. \_\_\_\_\_

		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE REF.</u>
B [C] E	2. Examine invoices or other documentation for additions to the fixed assets during the period. Determine if the additions have been authorized, classified in the accounts correctly and added to the property records. Determine capitalization policy regarding amounts.	_____	_____
C D [E]	3. Test to determine that disposals were authorized and properly recorded in the property records and trace proceeds into the record of cash receipts or receivables.	_____	_____
D E	4. For construction work-in-progress, obtain or prepare an analysis by project, test mathematical accuracy, examine documentary support for major additions, test transfers to permanent assets at end of year. Consider confirming status of construction contracts with contractors.	_____	_____
[A] E	5. Review insurance policies to determine if property and equipment coverage is adequate.	_____	_____
B	6. Test that all major repairs, additions and replacements have been authorized by the governing body; if legally required.	_____	_____
B C	7. Review allowances for depreciation if the local government maintains such records (most local governments do not keep such records, except where an Enterprise Fund or Internal Service Fund is involved).	_____	_____
A [B]	8. Examine deeds on newly acquired real estate and inquire into status of records for deeds on property acquired in prior periods.	_____	_____
[A] E	9. Observe physical safeguards.	_____	_____
	10. Make appropriate notations regarding matters to be discussed with audit partner, manager, or in-charge auditor.	_____	_____
D. Overall Conclusions			
	1. In our opinion, we have obtained sufficient and competent evidential matter to provide reasonable assurance that:		

	<u>DONE</u>		<u>WP</u>
	<u>BY</u>	<u>DATE</u>	<u>REF.</u>
a. The property represented by the accounts exists, is owned by the local government and is unencumbered except as indicated;	_____	_____	_____
b. Additions are properly recorded, are recorded at the proper amount, and are authentic;	_____	_____	_____
c. The cost or other basis of recording property is in accordance with generally accepted accounting principles;	_____	_____	_____
d. Accounting for the use and disposition of property is consistent from period to period and in accordance with the generally accepted accounting principles; and,	_____	_____	_____
e. The control over general fixed assets has been properly established.	_____	_____	_____

This audit program section has been completed in accordance with firm policy.

Date

\_\_\_\_\_  
Done by

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\_\_\_\_\_  
Reviewed by

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VIIA. Property and Equipment, and Related Depreciation—Proprietary type funds

Financial Statement Assertions:

1. Existence or occurrence.
2. Completeness.
3. Rights and obligations.
4. Valuation or allocation.
5. Presentation and disclosure.

Objectives:

- A. Property exists—To determine that the property exists and is owned by the entity. (Assertion 1)
- B. Additions, appropriate—To determine that additions to property are authentic, recorded at cost and properly distinguished from maintenance and repairs expense. (Assertions 1, 2 and 3)
- C. Retirements recorded—To determine that retirements of property together with the proceeds from salvage and related cost to remove are properly recognized. (Assertions 1, 2 and 4)
- D. Depreciation appropriate—To determine that a proper amount of depreciation expense is allocated to the period based on the asset cost, estimated life and salvage, and use of acceptable methods consistently applied, and adequately presented in the financial statements. (Assertions 4 and 5)
- E. Recoverable value—To determine that the net carrying value as presented in the financial statements is expected to be recoverable through the ordinary course of business. (Assertion 4)
- F. Encumbrances identified—To determine that any encumbrances and liens are identified and adequately disclosed in the financial statements. (Assertion 5)
- G. Proper classification—To determine that significant amounts of idle property and equipment are properly stated, classified and described. (Assertion 5)

H. Proper disclosure—To determine that significant amounts of fully depreciated assets are considered for disclosure. (Assertion 5)

**NOTE:** The letters preceding each of the above audit objectives serve as identification codes. These codes are presented in the objective column when the audit step accomplishes the specific objective. If the letter appears in brackets, i.e., [A], [B], etc., the audit procedure only secondarily accomplishes the objective.

DONE      WP  
BY   DATE   REF.

Procedures:

A. Substantive Test Procedures

- |  |              |              |              |
|--|--------------|--------------|--------------|
| <p>1. Obtain (or update) an understanding of the client's policies concerning capitalization of assets and related depreciation methods and depreciable lives.</p>         | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>2. Consider a tour of the client's facilities for new staff assigned to the engagement, or for the entire audit team if significant changes have occurred.</p>          | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>3. Consider the extent to which it may be practicable to perform substantive tests prior to the balance sheet date.</p>   | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>[A][B]<br/>[C][D] 4. Obtain or prepare the following schedules:</p>   |              |              |              |
| <p style="padding-left: 2em;">a. Summary schedule of property, plant and equipment, and related depreciation (by major asset classification) including the following:</p>  |              |              |              |
| <p style="padding-left: 4em;">(1) Beginning and ending asset balances at cost.</p>   | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p style="padding-left: 4em;">(2) Asset additions at cost.</p>   | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p style="padding-left: 4em;">(3) Asset retirements and dispositions.</p>  | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p style="padding-left: 4em;">(4) Other changes.</p>   | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p style="padding-left: 4em;">(5) Depreciation method and life.</p>  | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p style="padding-left: 4em;">(6) Beginning and ending balances of the allowances for depreciation.</p>  | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p style="padding-left: 4em;">(7) Additions to the allowances for depreciation accompanied by an analysis of amounts expensed, absorbed in inventory, and capitalized.</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |



		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE REF.</u>
	(8) Reductions of the allowances for depreciation for retirements and dispositions.	_____	_____
	b. Additions at cost showing the description, date acquired, transaction reference (purchase order number, check number, work order number, etc.), estimated useful life, and cost for all additions of \$ _____ or over. (Also see step 14 below.)	_____	_____
	c. Retirements and dispositions showing the description, date of acquisition, date of retirement or disposition, cost, accumulated depreciation, net carrying value, proceeds of disposition, and gain or loss on disposition (Also see step 14 below.)	_____	_____
	d. Analysis of maintenance expense showing each transaction of \$ _____ or greater (or all transactions) for the year or period.	_____	_____
[A][B] [C]	5. Trace opening balances per the summary schedules to closing balances per the prior year's working papers.	_____	_____
B C	6. Trace amounts per the summary schedule to the general ledger, the detailed asset records, and to the schedules of additions, and retirements and dispositions; recompute the footings and crossfootings of the schedules.	_____	_____
A B [C] F	7. Perform the following tests of selected additions:		
	a. Determine the addition has been authorized by reference to such sources as minutes of the meetings of the Board of Directors or Finance Committee and/or capital asset budgets reviewed by the Board of Directors or Finance Committee or by evidence of approval by appropriate, responsible personnel, in accordance with prescribed policies.	_____	_____
	b. Examine such supporting documents as purchase contracts, paid checks, vendors' invoices, purchase orders, receiving reports, work orders, engineers' reports, etc.	_____	_____

		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE REF.</u>
	c. Trace transactions to appropriate entries in the detailed records.	_____	_____
	d. For construction in progress examine supporting work orders, documentation in support of costs incurred such as contractors' invoices, reports and correspondence from engineers and/or architects regarding completion and trace transfers from the construction in progress accounts to other property accounts.	_____	_____
	e. Physically inspect selected (or all) major additions.	_____	_____
	f. Inquire about related dispositions.	_____	_____
	g. Determine whether additions conform with the company's capitalization policy.	_____	_____
	h. Determine that installment purchases, if any, are properly recorded.	_____	_____
	i. By reference to purchase contracts and contractors billings identify related liabilities to be recorded in connection with debt or other payables.	_____	_____
A C [D]	8. Perform the following tests of dispositions:		
	a. Determine disposition has been properly authorized.	_____	_____
	b. Examine such supporting documents as bills of sale, contracts, delivery memoranda, etc.	_____	_____
	c. Trace retirements to the detailed property records.	_____	_____
	d. Determine that deductions from the asset accounts and related accumulated depreciation are correct.	_____	_____
	e. Determine that gain or loss on disposition has been correctly classified and recorded.	_____	_____
A C G H	9. For fully depreciated assets, determine whether the assets are still used and not retired from service.	_____	_____

		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE REF.</u>
A C G H	10. Determine that assets retired from service, if material, have been removed from the property, plant and equipment accounts and related accumulated depreciation accounts, and are carried at amounts which are not in excess of realizable value.	_____	_____
A D G H	11. Review lease agreements for new leases and determine whether leased assets which should be capitalized have been capitalized, and that related depreciation is being determined using an appropriate method and life.	_____	_____
D [E]	12. Review provisions for depreciation and amortization, and:		
	a. Determine whether the methods and depreciable lives used in the current year are consistent with the preceding year and are reasonable.	_____	_____
	b. Test computation of depreciation and amortization.	_____	_____
	c. Determine that amounts of depreciation capitalized in construction in progress are reasonable and appropriate.	_____	_____
	d. Ascertain that obsolescence, if any, is being properly recognized by adjustments of depreciable lives.	_____	_____
	e. Trace addition to the depreciation allowances to the applicable general ledger expense accounts.	_____	_____
B	13. Review maintenance expense and examine supporting documentation for selected transactions to determine that the amounts have been properly classified.	_____	_____
B C	14. Obtain or prepare and test an analysis of qualified additions and early dispositions of qualified property in a format which provides for determination of the investment tax credit. (This may be incorporated into schedules for additions and dispositions.)	_____	_____
[A][D]	15. Review the following relationships for the current and preceding year and obtain explanations for significant fluctuations [SAS No. 56 (AU section 329)]:		

<u>DONE</u>	<u>WP</u>
<u>BY</u>	<u>DATE REF.</u>

- |  |       |       |       |
|--|-------|-------|-------|
| a. Dispositions of property and equipment to replacements.                             | _____ | _____ | _____ |
| b. Accumulated depreciation to plant and equipment balances at cost.                   | _____ | _____ | _____ |
| c. Current year depreciation and amortization to plant and equipment balances at cost. | _____ | _____ | _____ |

B. Section Complete

- |  |       |       |       |
|--|-------|-------|-------|
| 1. The objectives of this audit program have been met. | _____ | _____ | _____ |
|--|-------|-------|-------|

This audit program section has been completed in accordance with firm policy.

Date

\_\_\_\_\_  
Done by

\_\_\_\_\_  
Reviewed by

\_\_\_\_\_  
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\_\_\_\_\_

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VIIB. Low Risk Property and Equipment, and Related Depreciation and Amortization—Proprietary type funds

Financial Statement Assertions:

1. Existence or occurrence.
2. Completeness.
3. Rights and obligations.
4. Valuation or allocation.
5. Presentation and disclosure.

Objectives:

- A. Property exists—To determine that the property exists and is owned by the entity. (Assertion 1)
- B. Additions appropriate—To determine that additions to property are authentic recorded at cost and properly distinguished from maintenance and repairs expense. (Assertions 1, 2 and 3)
- C. Retirements recorded—To determine that retirements of property together with the proceeds from salvage and related cost to remove are properly recognized. (Assertions 1, 2 and 4)
- D. Depreciation appropriate—To determine that a proper amount of depreciation expense is allocated to the period based on the asset cost, estimated life and salvage, and use of acceptable methods consistently applied, and adequately presented in the financial statements. (Assertions 4 and 5)
- E. Recoverable value—To determine that the net carrying value as presented in the financial statements is expected to be recoverable through the ordinary course of business. (Assertion 4)
- F. Encumbrances identified—To determine that any encumbrances and liens are identified and adequately disclosed in the financial statements. (Assertion 5)
- G. Proper classification—To determine that significant amounts of idle property and equipment are properly stated, classified and described. (Assertion 5)

- H. Proper disclosure—To determine that significant amounts of fully depreciated assets are considered for disclosure. (Assertion 5)
- I. GAAP conformity—To determine that the financial statement presentation and disclosure of plant, property, and equipment and related depreciation is in conformity with generally accepted accounting principles consistently applied (Assertion 5)

**NOTE:** The letters preceding each of the above audit objectives serve as identification codes. These codes are presented in the objective column when the audit step accomplishes the specific objective. If the letter appears in brackets, i.e., [A], [B], etc., the audit procedure only secondarily accomplishes the objective.

DONE      WP  
BY    DATE   REF.

Procedures:

A. Substantive Test Procedures

- |                                     |   |       |       |       |
|-------------------------------------|---|-------|-------|-------|
|                                     | 1. A determination has been made that there is a low level of combined inherent risk and control risk for all assertions related to property.                                       | _____ | _____ | _____ |
|                                     | 2. Obtain (update) an understanding of the client's policies concerning capitalization of assets and related depreciation methods and depreciable lives (book and tax).             | _____ | _____ | _____ |
| [B][C]<br>[D]                       | 3. Review the activity in the general ledger for property and equipment and the related depreciation accounts, as well as repairs and maintenance for the period being audited and: |       |       |       |
|                                     | a. Note and investigate any entries which appear unusual in source or amount.   | _____ | _____ | _____ |
|                                     | b. Compare the opening balance(s) for the period with the final closing balance(s) per the working papers and reports for the preceding period.                                     | _____ | _____ | _____ |
| [A][B][C]<br>[D][E][F]<br>[G][H][I] | 4. Obtain or prepare the following schedules:   |       |       |       |
|                                     | a. Summary schedule of property, plant, and equipment, and related depreciation (by major asset classification) including the following:  |       |       |       |

	<u>DONE</u>		<u>WP</u>
	<u>BY</u>	<u>DATE</u>	<u>REF.</u>
(1) Beginning and ending asset balances at cost.	_____	_____	_____
(2) Asset additions at cost.	_____	_____	_____
(3) Asset retirements and dispositions.	_____	_____	_____
(4) Insurance coverage limits.	_____	_____	_____
(5) Other changes.	_____	_____	_____
(6) Depreciation method and life.	_____	_____	_____
(7) Beginning and ending balances of the allowance for depreciation.	_____	_____	_____
(8) Additions to the allowances for depreciation accompanied by an analysis of amounts expensed, absorbed in inventory, and capitalized.	_____	_____	_____
(9) Reductions of the allowances for depreciation for retirements and disposition.	_____	_____	_____
(10) Dollar value of amounts owed on property.	_____	_____	_____
b. Additions at cost showing the description, date acquired, transaction reference (purchase order number, check number, work order number, etc.), estimated useful life, and cost for all additions of \$ _____ or over.	_____	_____	_____
c. Retirements and dispositions showing the description, date of acquisition, date of retirement or disposition, cost, accumulated depreciation, net carrying value, proceeds of disposition, and gain or loss on disposition.	_____	_____	_____
d. Analysis of maintenance expense showing each transaction of \$ _____ or greater (or all transactions) for the year or period.	_____	_____	_____
[A][B][C] 5. Trace opening balances per the summary schedules to closing balances per the prior year's working papers.	_____	_____	_____

DONE            WP  
BY   DATE   REF.

[A][B][C]  
[D][F][G]  
[H]

- 6. Review the following relationships for the current and preceding year and obtain explanations for significant fluctuations [SAS No. 56 (AU section 329)]:
  - a. Dispositions of property and equipment to replacements (dollar value as well as number of units).
  - b. Accumulated depreciation to plant and equipment balances at cost.
  - c. Current year depreciation and amortization to plant and equipment balances at cost.
  - d. Additions with budgeted amounts.
  - e. Gains and losses on disposals.
  - f. Amortization/depreciation expense to net sales.
  - g. Maintenance expense to prior year expense and budgeted amount.
  - h. Value of property compared to amounts owed on property.

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

B. Section Completion

- 1. The objectives of this audit program have been met.

\_\_\_\_\_

This audit program section has been completed in accordance with firm policy.

Date

\_\_\_\_\_  
Done by

\_\_\_\_\_

\_\_\_\_\_  
Reviewed by

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The material included in this section is presented for illustrative purposes only. The illustrative audit objectives and illustrative audit procedures are neither all-inclusive nor are they prescribed minimums. The illustrative audit procedures are numbered merely to organize the materials; those numbers are not intended to imply completeness or a prescribed sequence. The nature, extent and timing of the auditing procedures to be applied on a particular engagement are a matter of professional judgment to be determined by the auditor based on the specific facts and circumstances.

#### VIII. Financing (Including Equity Accounts)

##### Financial Statement Assertions:

1. Existence or occurrence.
2. Completeness.
3. Rights and obligations.
4. Valuation or allocation.
5. Presentation and disclosure.

##### Objectives:

- A. All financing commitments, both those connected with recorded financing (assets pledged, covenants, etc.) and those related to prospective or "off balance sheet" financing, are identified. (Assertions 1, 2)
- B. All financing commitments are properly authorized and classified. (Assertions 2, 3, 5)
- C. All transactions are recorded in the correct period and amount. (Assertions 2, 4)
- D. The cost of financing is accounted for in accordance with generally accepted accounting principles. (Assertions 4, 5)
- E. All changes in equity accounts are properly recorded. (Assertions 2, 4, 5)
- F. All equity balances are properly reported. (Assertions 2, 5)
- G. If the government is subject to the rebate calculation and refund requirements of the Tax Reform Act of 1986 (TRA): (Assertion 3)
  - a. The calculation has been made as required by law/regulation (annually on the anniversary date of each bond issue);
  - b. The refund has been made as required (30 days after the end of the fifth rebate year); and,
  - c. Liabilities resulting from a failure to comply with rebate and refund requirements have been properly recorded

as a loss contingency and/or disclosure has been made in the notes of potential loss of tax exempt status.

**NOTE:** The letters preceding each of the above audit objectives serve as identification codes. These codes are presented in the objective column when the audit step accomplishes the specific objective. If the letter appears in brackets, i.e., [A], [B], etc., the audit procedure only secondarily accomplishes the objective.

<u>DONE</u>	<u>WP</u>
<u>BY</u>	<u>DATE REF.</u>

Procedures:

A. Evaluation of Internal Control Structure

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Review the documentation and conclusions resulting from the steps taken to understand and test the internal control structure policies, procedures, and records relevant to planning the audit of financing.  | _____ | _____ | _____ |
| 2. Consider the understanding obtained of the internal control structure, the assessed level of control risk (together with assessment of inherent risk), and the acceptable level of detection risk to determine the nature, timing, and extent of substantive tests. | _____ | _____ | _____ |
| 3. Revise the audit program, as appropriate, following the consideration of the internal control structure and related audit risks.  | _____ | _____ | _____ |

B. Analytical Procedures

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Review the planning procedures applicable to analytical procedures performed on financing and consider the result of the procedures in determining the nature, timing, and extent of other audit procedures.  | _____ | _____ | _____ |
| 2. Revise the audit program, as appropriate, following consideration of the results of the analytical procedures.  | _____ | _____ | _____ |
| 3. If analytical procedures are used for substantive testing purposes, document the basis for the expected relationship, the results of the comparison of the recorded amount to the expectation, and the results of the evaluation of unexpected differences between the recorded amount and the expectation. | _____ | _____ | _____ |

		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE</u> <u>REF.</u>
	<b>C. Other Auditing Procedures—Notes, Tax Anticipation Warrants and Contracts Payable</b>		
[A] B C	1. Determine that all obligations of this nature have been properly authorized. Schedule and verify changes in all obligation accounts for the year.	_____	_____
[A] B C	2. Circularize note holders. Determine interest rates, collateral, liens, and security agreements, if any.	_____	_____
B C D	3. Determine that warrants, etc., have not been issued in excess of legal limitations and confirm that payments have been made in accordance with legal requirements.	_____	_____
C	4. Determine that interest paid or accrued has been computed correctly.	_____	_____
B C	5. Determine any amount of retainage on construction billings in situations where construction projects are present. Examine contracts for proper authority.	_____	_____
[A] B C	6. Determine that leases have been properly classified as capital or operating.	_____	_____
	<b>D. Other Auditing Procedures—Loans and Advances</b>		
B C	1. Determine that all obligations of this nature have been properly authorized. Schedule and verify changes in all obligation accounts for the year.	_____	_____
C D	2. Trace receipts to cash receipts.	_____	_____
C D	3. Determine that all items are properly recorded as a liability.	_____	_____
C	4. Determine that all payments have been made as required.	_____	_____
C [D]	5. Verify interest rates and accruals.	_____	_____
	<b>E. Other Auditing Procedures—Bonded Debt</b>		
A B	1. Review bond register showing bonded debt.	_____	_____
B	2. Check amounts authorized to records of election ordinances authorizing new issues in the current period.	_____	_____

		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE REF.</u>
B C	3. Trace proceeds of new bond issues to bank account using broker's confirmation as a source of verification account for unissued bonds, if applicable.	_____	_____
C D	4. Reconcile bonds issues at beginning of period and at end of period.	_____	_____
C D	5. Test interest expense for period and scrutinize it for any indication of unrecorded long-term debt.	_____	_____
C D	6. Verify bonds and coupons due but not paid with paying agent where appropriate.	_____	_____
B	7. Determine compliance with bond ordinance requirements for establishment and maintenance of restrictive accounts.	_____	_____
C	8. Verify payment of current year's maturities. (Examine cancelled bonds and interest coupons.)	_____	_____
C D	9. Confirm directly with the paying agent any year-end balances (including cancelled bonds and coupons on hand); that each issue has been serviced properly; and that the client has complied with all necessary requirements during the year.	_____	_____
B C D	10. Determine that cash on hand with the paying agent is recorded as both an asset and a liability.	_____	_____
B	11. Review underlying documentation for any other long-term debt.	_____	_____
B	12. Determine that the total outstanding debt does not exceed the legal restrictions.	_____	_____
<b>F. Other Auditing Procedures—Other Debt</b>			
B	1. Review documentation supporting compliance with debt covenants. Review for waiver in case of noncompliance.	_____	_____
B	2. Review calculation of debt limits compared to outstanding debt.	_____	_____

DONE      WP  
BY   DATE   REF.

G. Other Auditing Procedures—Arbitrage Re-  
bate and Refund Requirements Under The Tax  
Reform Act of 1986

- |   |  |       |       |       |
|---|--|-------|-------|-------|
| G | 1. Obtain a listing of obligations issued since August 15, 1986, the effective date of 1986 TRA.   | _____ | _____ | _____ |
| G | 2. Obtain for each bond issue the certificate as to arbitrage issued by bond counsel which is essential for an understanding of the compliance requirements relative to a bond issue.  | _____ | _____ | _____ |
| G | 3. Determine whether:  |       |       |       |
|   | a. The foregoing bonds are subject to arbitrage rebate calculation and refund requirements of the TRA;   | _____ | _____ | _____ |
|   | b. The procedures adopted to ensure compliance with the arbitrage provisions of TRA are adequate. Consideration should be given to whether competent guidance has been received in this area from counsel and others;  | _____ | _____ | _____ |
|   | c. Accounting records are maintained by debt issue for proceeds, related investment earnings, and related rebate amounts, if any;  | _____ | _____ | _____ |
|   | d. Debt proceeds and bond issue reserve funds have been invested and the nature of the investment. Income on State and Local Government Series (SLGS) Program investments and income on tax exempt obligations will, as a general rule, be exempt from arbitrage;    | _____ | _____ | _____ |
|   | e. The arbitrage rebate calculation has been made annually on the bond issue anniversary date and whether the rebate amount has been placed in a separate account. The rebate calculation is generally made through the use of purchased software or by consultants; | _____ | _____ | _____ |

		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE REF.</u>
	f. The appropriate rebate refund payment was made to the U.S. Treasury within 30 days after the end of the fifth rebate year. The rebate payment must be:	_____	_____
	(1) 90% of the calculated rebate amount, and	_____	_____
	(2) All interest earned on the rebate amount;	_____	_____
	g. Any penalties have been imposed by the Internal Revenue Service for failure to comply with the TRA;	_____	_____
	h. The government has been advised of the possible loss of tax exempt status on bond issues for failure to comply with the provisions of the TRA; and,	_____	_____
	i. The rebate amount and penalties, if any, are properly reported in the financial statements and/or disclosed in the notes thereto.	_____	_____
G	4. Determine whether the local government's record retention policy requires records to be maintained for 6 years after the bonds are retired.	_____	_____
	H. Other Auditing Procedures—Local Government Entity		
A	1. Sinking fund requirement and reserves.		
	a. Examine the statutes, charter or ordinance with respect to the method of calculating annual sinking fund and reserve requirements.	_____	_____
	b. Determine that the reserve for retirement of sinking fund bonds is set-up on a basis provided by law. If there are no legal provisions respecting the basis of calculating requirements, see that such requirements are set-up on an actuarial basis.	_____	_____
	c. Note whether the reserve indicates correctly the amount of assets which should be in the fund.	_____	_____

DONE            WP  
BY   DATE   REF.

- d. Note whether contributions and earnings thereon are in accordance with requirements.
- e. Determine that restricted assets are invested in the classes of securities as required by law, if applicable.
- f. Determine that sinking fund investments mature early enough to meet the bonds to be retired from the fund.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

E F

- 2. Fund balances, retained earnings, reserves, and designations.
  - a. Review the minutes of the governing body, boards, charter, and debt agreements to identify the authorizations for reservations or designations of fund balances. Determine that such reserves and designations are properly recorded and disclosed.
  - b. Review balances for legal compliance.
  - c. Analyze all transactions to the reserve accounts for the year.
  - d. Analyze all transactions to fund balances or retained earnings accounts for the year to determine that all such transactions are properly reported in the financial statements or notes.
  - e. Verify the validity of any adjustment to the fund balance or, where applicable, retained earnings accounts, and determine appropriate reporting if material.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

I. Overall Conclusion

- 1. In our opinion, we have obtained sufficient and competent evidential matter to provide reasonable assurance that:
  - a. All financing commitments, both those connected with recorded financing and those related to prospective or "off balance-sheet" financing are identified;

\_\_\_\_\_

	<u>DONE</u>	<u>WP</u>
	<u>BY</u>	<u>REF.</u>
	<u>DATE</u>	
b. All financing commitments are properly authorized and classified;	_____	_____
c. All transactions are recorded in the correct period and amount;	_____	_____
d. The cost of financing is accounted for in accordance with generally accepted accounting principles;	_____	_____
e. All changes in equity accounts are properly recorded;	_____	_____
f. All equity balances are properly reported;	_____	_____
g. The arbitrage rebate calculation, if required, has been made as required by law/regulation;	_____	_____
h. The arbitrage refund has been made as required by law/regulation; and,	_____	_____
i. There are no loss contingencies due to noncompliance that have not been properly recorded or disclosed.	_____	_____
Except as follows:		
_____		
_____		
_____		

This audit program section has been completed in accordance with firm policy.

_____	Date
Done by	_____
_____	_____
Reviewed by	



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## IX. Insurance

### Financial Statement Assertions:

1. Existence or occurrence.
2. Completeness.
3. Rights and obligations.
4. Valuation or allocation.
5. Presentation and disclosure.

### Objectives:

- A. The local government has provided reasonable coverage for risks of loss. (Assertion 3)
- B. Self-insurance programs are properly authorized and in accordance with state and local laws and regulations. (Assertion 3)
- C. Self-insurance program premiums have been properly assessed and recorded in benefiting funds. (Assertions 3, 4, 5)
- D. Claims payable for self-insurance programs have been properly determined and recorded. (Assertions 2, 3, 4, 5)
- E. Claims paid by self-insurance programs conform to self-insurance program requirements. (Assertion 3)
- F. Note disclosures relative to the local government's insurance programs provide adequate disclosure. (Assertion 5)

**NOTE:** The letters preceding each of the above audit objectives serve as identification codes. These codes are presented in the objective column when the audit step accomplishes the specific objective. If the letter appears in brackets, i.e., [A], [B], etc., the audit procedure only secondarily accomplishes the objective.

DONE      WP  
BY   DATE   REF.

Procedures:

A. Evaluation of Internal Control Structure

1. Review the documentation and conclusions resulting from the steps taken to understand and test the internal control structure policies, procedures, and records relevant to planning the audit of insurance. \_\_\_\_\_
2. Consider the understanding obtained of the internal control structure, the assessed level of control risk (together with assessment of inherent risk), and the acceptable level of detection risk to determine the nature, timing, and extent of substantive tests. \_\_\_\_\_
3. Revise the audit program, as appropriate, following the consideration of the internal control structure and related risks. \_\_\_\_\_

B. Analytical Procedures

1. Review the planning procedures applicable to analytical procedures performed on cash and consider the result of the procedures in determining the nature, timing, and extent of other audit procedures. \_\_\_\_\_
2. Revise the audit program, as appropriate, following consideration of the results of the analytical procedures. \_\_\_\_\_
3. If analytical procedures are used for substantive testing purposes, document the basis for the expected relationship, the results of the comparison of the recorded amount to the expectation, and the results of the evaluation of unexpected differences between the recorded amount and the expectation. \_\_\_\_\_

C. Other Auditing Procedures

- A      1. Obtain a copy of the local government's insurance register. \_\_\_\_\_
- A      2. Verify the accuracy of the insurance register by comparing the referenced policy information to the insurance policy. \_\_\_\_\_

		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE REF.</u>
A	3. Determine that the insurance register is complete by comparing recorded premium payments to the insurance policies shown by the insurance register. Trace covered property to the property records.	_____	_____
A B [F]	4. Prepare a schedule showing the types of risks of loss to which the local government is exposed and how those risks are handled (for example, through commercial insurance, self-insurance, public risk pool, etc.).	_____	_____
B	5. Where applicable, review local government resolutions, minutes, state statutes, etc., authorizing the retention of risk (self-insurance program).	_____	_____
C D	6. For self-insurance programs accounted for within an internal service fund, determine that premiums are:		
	a. Recorded as charges for services in the internal service fund;	_____	_____
	b. Recorded as expenditures/expenses of the insured funds; and,	_____	_____
	c. Based on the loss experience of the internal service fund and allocated to the insured funds on a reasonable basis.	_____	_____
D E	7. Determine that claims and related expenditures/expenses have been recognized in accordance with GASB Codification section C50. Claims payable may be estimated through a case-by-case review of all claims, the application of historical experience to the outstanding claims, or a combination of those methods.	_____	_____
D	8. Determine that the estimated liability includes INBR losses and that the basis used to establish such estimates is reasonable.	_____	_____
D F	9. Determine that the liability has been properly recorded and reported:		
	a. For the general fund, claims payable are recorded using the modified accrual basis, with the current portion recorded as an expenditure and		

		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE</u> <u>REF.</u>
	a fund liability and the long-term portion recorded in the general long-term debt account group.	_____	_____
	b. For internal service funds, the total of claims payable are reported as internal service funds liabilities.	_____	_____
E	10. Select a representative sample of claims paid and verify that the claimed losses were documented and that the payments made conform to program provisions.	_____	_____
E	11. Examine claims paid subsequent to the close of the fiscal year to determine the existence of unrecorded payables.	_____	_____
C	12. Determine that consideration has been given to recording properly authorized interfund receivables and payables to eliminate internal service fund deficits.	_____	_____
C	13. Determine that assets accumulated to pay claims are appropriately shown as reserved or designated for self insurance.	_____	_____
F	14. Determine the accuracy and completeness of related note disclosures.	_____	_____
D. Overall Conclusions			
	1. In our opinion, we have obtained sufficient and competent evidential matter to provide reasonable assurance that:		
	a. The local government has provided reasonable coverage for risks of loss;	_____	_____
	b. Self-insurance programs are properly authorized and in accordance with state and local laws and regulations;	_____	_____
	c. Self-insurance program premiums have been properly assessed and recorded;	_____	_____
	d. Claims payable for self-insurance programs have been properly determined and recorded;	_____	_____

<u>DONE</u>	<u>WP</u>
<u>BY</u>	<u>DATE REF.</u>

e. Claims payable for self-insurance programs conform to self-insurance requirements; and,

\_\_\_\_\_

f. Note disclosures relative to the local government's insurance programs provide adequate disclosure;

Except as follows:

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

\_\_\_\_\_

This audit program section has been completed in accordance with firm policy.

Date

\_\_\_\_\_  
 Done by

\_\_\_\_\_

\_\_\_\_\_  
 Reviewed by

\_\_\_\_\_

The material included in this section is presented for illustrative purposes only. The illustrative audit objectives and illustrative audit procedures are neither all-inclusive nor are they prescribed minimums. The illustrative audit procedures are numbered merely to organize the materials; those numbers are not intended to imply completeness or a prescribed sequence. The nature, extent and timing of the auditing procedures to be applied on a particular engagement are a matter of professional judgment to be determined by the auditor based on the specific facts and circumstances.

## X. Pension Trust Funds

### Financial Statement Assertions:

1. Existence or occurrence.
2. Completeness.
3. Rights and obligations.
4. Valuation or allocation.
5. Presentation and disclosure.

### Objectives:

- A. The physical evidences of ownership of investments reported in the financial statements (stock certificates, bonds, notes, etc.) are on hand or held in custody or safekeeping by others for account of the client's pension trust funds. (Assertion 1, 2, 3)
- B. Adequate disclosure has been made of the pledging of any investments, and credit risks are properly disclosed as required by GASB Statement No. 3. (Assertions 3, 5)
- C. Investments and the related income are properly valued, allocated, classified, and described in the financial statements. (Assertions 2, 4, 5)
- D. Insurance contracts and accounts established to fund employee benefits are appropriately reported in the financial statements. (Assertions 4, 5)
- E. The amounts received or due the plan have been determined in accordance with plan requirements and recorded and reported in conformity with generally accepted accounting principles, including the establishment of an appropriate valuation allowance. (Assertions 3, 4, 5)
- F. Benefit payment amounts conform to plan provisions. (Assertion 3)
- G. Financial statement representations are consistent with actuarial findings. (Assertions 4, 5)
- H. Applicable accounting principles have been consistently applied. (Assertions 4, 5)

I. Required supplementary information has been presented in accordance with guidelines established for its presentation and measurement. (Assertions 2, 5)

**NOTE:** The letters preceding each of the above audit objectives serve as identification codes. These codes are presented in the objective column when the audit step accomplishes the specific objective. If the letter appears in brackets, i.e., [A], [B], etc., the audit procedure only secondarily accomplishes the objective.

DONE                    WP  
BY    DATE    REF.

Procedures:

A. Audit Planning

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Discuss the following with pension plan administrators, trustees, or other appropriate client officials:                 |       |       |       |
| a. Covered employees, retirees, etc.  | _____ | _____ | _____ |
| b. Participating employers.   | _____ | _____ | _____ |
| c. Types of plans (defined benefit or defined contribution plan).   | _____ | _____ | _____ |
| d. Date of latest actuarial review or update, name and address of actuary, and GASB Statement No. 5 actuarial requirements. | _____ | _____ | _____ |
| e. Names and titles of client contact personnel and their respective responsibilities for the plan or plans.                | _____ | _____ | _____ |
| f. Funding of plan (self-insured, insured, or split-funded).  | _____ | _____ | _____ |
| g. Custody of investments.  | _____ | _____ | _____ |
| h. Responsibility for plan administration and location of accounting records and participant's data.                        | _____ | _____ | _____ |
| i. The extent that records are automated and whether the local government or an outside EDP service processes plan data.    | _____ | _____ | _____ |
| j. Citations of applicable statutes and rules.  | _____ | _____ | _____ |
| k. The nature and extent of special reporting requirements, if any, and related audit requirements.                         | _____ | _____ | _____ |

	<u>DONE</u>		<u>WP</u>
	<u>BY</u>	<u>DATE</u>	<u>REF.</u>
1. The extent of involvement, if any, of specialists, consultants, internal auditors, and other independent auditors.	_____	_____	_____
m. Basis upon which financial statements are prepared (whether NCGA Statement 1, NCGA Statement 6, FASB Statement No. 34, or other).	_____	_____	_____
n. Significant changes in accounting principles, plan provisions, actuarial methods, etc.	_____	_____	_____
o. Significant contracts, litigation, or contingencies.	_____	_____	_____
p. If assets are held by a trustee, the nature of the trustee arrangement ("directed trust" or "discretionary trust").	_____	_____	_____
q. The extent to which component unit pension plans exist.	_____	_____	_____
2. Read the pension plan instruments, including amendments, to determine how the plan works, its funding, participating employers and employees, basis for determining benefits, etc.	_____	_____	_____
3. Read state and local statutes and rules authorizing the retirement programs and note all pertinent laws of potential material impact (for example, provisions specifying legal investment types).	_____	_____	_____
4. Read agreements with trustees, investment advisers, and insurance companies.	_____	_____	_____
5. Obtain and review relevant policy and procedure manuals and flowcharts.	_____	_____	_____
6. Read the prior year's annual report and current and prior year filings with regulatory agencies.	_____	_____	_____
7. Obtain from other independent auditors special purpose reports on the internal accounting control structure of service organizations which were responsible for executing, recording, and /or processing financial or finance-related data (for example, trustees with sig-	_____	_____	_____



	<u>DONE</u>		<u>WP</u>
	<u>BY</u>	<u>DATE</u>	<u>REF.</u>
nificant responsibility for pension plans or investment administration).	_____	_____	_____
8. Read reports from actuaries, trustees, insurance companies, other independent auditors, and internal auditors.	_____	_____	_____
9. Coordinate audit progress with trustees, actuaries, services centers, employers, other independent auditors, internal auditors, and others, as necessary.	_____	_____	_____
10. Consider integration of pension trust fund audit procedures with those specified for other segments (for example, use of payroll sample item to test participant records).	_____	_____	_____
<b>B. Evaluation of Internal Control Structure</b>			
1. Review the documentation and conclusions resulting from the steps taken to understand and test the internal control structure policies, procedures, and records relevant to planning the audit of the pension trust fund and related areas.	_____	_____	_____
2. Consider the understanding obtained of the internal control structure, the assessed level of control risk (together with assessment of inherent risk), and the acceptable level of detection risk to determine the nature, timing, and extent of substantive tests.	_____	_____	_____
3. Revise the audit program, as appropriate, following the consideration of the internal control structure and related audit risks.	_____	_____	_____
<b>C. Analytical Procedures</b>			
1. Review the planning procedures applicable to analytical procedures performed on the pension trust funds and related areas and consider the result of the procedures in determining the nature, timing, and extent of other audit procedures.	_____	_____	_____
2. Revise the audit program, as appropriate, following consideration of the results of the analytical procedures.	_____	_____	_____

		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE REF.</u>
	3. If analytical procedures are used for substantive testing purposes, document the basis for the expected relationship, the results of the comparison of the recorded amount to the expectation, and the results of the evaluation of unexpected differences between the recorded amount and the expectation.	_____	_____
D. Other Auditing Procedures—Investments			
[A] B [C]	1. Obtain an analysis of changes in investments during the period.	_____	_____
A	2. Obtain evidence (by confirmation or physical count) concerning the existence and ownership of the investments.	_____	_____
B	3. Obtain information concerning any liens, pledges, or other security interests by reviewing minutes, agreements, and confirmations.	_____	_____
A B	4. For assets held by a trustee, obtain and review information concerning the trustee's responsibility and financial capability.	_____	_____
C	5. Reconcile amounts confirmed or counted to recorded accountability.	_____	_____
[A] [B] C H	6. Test investment transactions for proper authorization, legality, proper recording as to dates, amounts, quantities, descriptions, and computation and allocation of gains and losses.	_____	_____
C H	7. Determine that income accruing from investments has been properly allocated and recorded.	_____	_____
C H	8. Obtain market values at balance sheet date and investigate significant differences from recorded values to determine if any write-downs are necessary.	_____	_____
B	9. Review GASB Statement No. 3 disclosures.	_____	_____
A C	10. Perform such procedures as necessary to satisfy audit objectives concerning plan investments administered by trustees. (Note: It may be necessary to perform auditing procedures at the trustee's offices.) The extent of the	_____	_____

DONE            WP  
BY   DATE   REF.

trustee's responsibility for investment decisions, the physical location of available records, and the extent to which relevant reports of other independent auditors are available.

\_\_\_\_\_

D            11. For plan assets held by an insurance company:

a. Read the contracts between the contract holder and the insurance company.

\_\_\_\_\_

b. Confirm with the insurance company:

(1) Contributions or premium payments.

\_\_\_\_\_

(2) Interest, dividends, refunds, credits, and changes in value and whether such amounts have been charged or credited during the year on an estimated or actual basis.

\_\_\_\_\_

(3) The contract value or the fair value of the funds at the plan's year-end and the basis for determining such values.

\_\_\_\_\_

(4) The amount of insurance company fees and other expenses.

\_\_\_\_\_

(5) Annuity purchases or benefits paid.

\_\_\_\_\_

(6) Transfers between funds or accounts.

\_\_\_\_\_

c. Reconcile the confirmed balances and transactions with amounts recorded and reported by the client.

\_\_\_\_\_

d. Where it appears that records must be evaluated at the insurance company to satisfy audit objectives, consider requesting special purpose reports from the insurance company's independent auditors or internal auditors.

\_\_\_\_\_

e. Evaluate compliance with contract terms.

\_\_\_\_\_

f. Evaluate reasonableness of amounts credited to the contracts.

\_\_\_\_\_

		<u>DONE</u>		<u>WP</u>
		<u>BY</u>	<u>DATE</u>	<u>REF.</u>
	g. Evaluate the sufficiency of related note disclosures.	_____	_____	_____
E.	Other Auditing Procedures—Contributions and Related Receivables			
E	1. Obtain a list of participating employers (for multi-employer plans) and test its completeness by comparing the list to appropriate plan documents, statutory requirements, etc.	_____	_____	_____
E	2. Obtain a schedule showing contributions received or receivable sorted by employer and compare to the list of participating employers.	_____	_____	_____
E H	3. Test contribution reports for arithmetic accuracy, use of the proper contribution rates, the use of the proper payroll or salary base amount, and proper posting to cash receipt records and bank statements or trustee reports.	_____	_____	_____
E H	4. Test posting from the employer contribution reports to participant records and from participant records to contribution reports.	_____	_____	_____
E H	5. Reconcile contributions received to the plan's cash receipt records and bank statements or trustee records.	_____	_____	_____
E H	6. Confirm directly with contributors amounts contributed and receivable.	_____	_____	_____
E H	7. Review accruals for conformance with generally accepted accounting principles.	_____	_____	_____
E H	8. Evaluate the reasonableness of the plan's allowance for doubtful accounts.	_____	_____	_____
E	9. Compare contribution rates used to those recommended by the plan's actuary and those required by statute or rule.	_____	_____	_____
E	10. Consider the results of the auditing procedures applied to participant data and their effect, if any, on the amounts recorded as contributions and contributions receivable.	_____	_____	_____

		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE</u> <u>REF.</u>
E	11. Review note disclosures relative to pension plan contributions and related receivables.	_____	_____
	F. Other Auditing Procedures—Benefit Payments and Payables		
F H	1. For selected participants or beneficiaries receiving benefit payments:		
	a. Evaluate file documentation supporting eligibility and authorizing payments.	_____	_____
	b. Recompute benefit payment amounts and compare to actual payments.	_____	_____
	c. Examine cancelled check as to amount, date, signatures, and endorsements.	_____	_____
	d. Verify proper posting to cash disbursement, participant, and general ledger records.	_____	_____
F	2. For a sample of cancelled benefit payment checks, compare payee, amount, date, signatures, and endorsements to related file documentation authorizing the payment and verify proper posting to cash disbursement, participant, and general ledger records.	_____	_____
F	3. Evaluate the continued eligibility of participants or beneficiaries to whom payments have been made over an unusually long period of time.	_____	_____
F	4. Investigate benefit payment checks which have been outstanding for a long period of time.	_____	_____
F	5. Confirm benefit payments with selected participants or beneficiaries and compare confirmation signatures with related file documentation.	_____	_____
F H	6. Evaluate benefit payment accruals for conformance with generally accepted accounting principles.	_____	_____
	G. Other Auditing Procedures—Participants Data and Plan Objectives		
E F	1. By reviewing pertinent sections of the pension plan instrument, statutes, or		

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	rules, identify participant data which should be tested because of its use in determining vesting, eligibility and/or benefit amounts (for example, demographic data, payroll data, benefit levels and options, etc.).	_____	_____
E	2. For selected participants, verify relevant participant file data by comparing it to corroborative employer records (such as payrolls, employee earnings records, personnel files, etc.).	_____	_____
E F	3. For selected employees, trace payroll data to participant file data.	_____	_____
E F	4. Confirm participant file data with participants.	_____	_____
E	5. Review tests, if any, by the plan administrator of data submitted by employees (for multi-employer plans).	_____	_____
E	6. Consider obtaining a special report from employer auditors concerning the application of procedures similar to those described above.	_____	_____
G	7. With regard to actuarial valuations of defined benefit plans:		
	a. Obtain information concerning the professional qualifications and reputation of the actuarial firm.	_____	_____
	b. Obtain an understanding of the actuary's methods and assumptions.	_____	_____
	c. Submit an inquiry to the actuary concerning:		
	(1) Whether the actuarial valuation considers all pertinent provisions of the plan, including any changes to the plan or other events affecting the actuarial calculations.	_____	_____
	(2) Relationships between the actuary and the plan or an employer which may impair the actuary's objectivity.	_____	_____

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(3) Aggregate and selected individual participant data amounts used in the actuarial valuations.

\_\_\_\_\_

(4) Whether the actuary has reviewed the relevant portions of the financial statements and agrees with such information as presented.

\_\_\_\_\_

d. Verify the accuracy and completeness of the participant data used in the actuarial valuations.

\_\_\_\_\_

E F            8. With respect to defined contribution plans:

a. Verify that allocations of income or loss, investment appreciation or depreciation, administrative expenses, and forfeitures have been made in accordance with plan provisions.

\_\_\_\_\_

b. Employer contributions have been properly allocated.

\_\_\_\_\_

c. Employee contributions have been credited to the proper participant account and investment medium.

\_\_\_\_\_

d. Verify that the sum of individual accounts reconciles with total net assets available for benefits.

\_\_\_\_\_

H. Review Procedures—Required Supplementary Information

1. With regard to 10-year historical trend information, inquire of management as to the methods used in preparing the information including:

a. Whether it is measured and presented in accordance with the guidelines of GASB.

\_\_\_\_\_

b. Whether the methods of measurement or presentation have been changed from those of the prior period and the reasons for such changes.

\_\_\_\_\_

c. Any significant assumptions or interpretations underlying the measurement or presentation.

\_\_\_\_\_

	<u>DONE</u>	<u>WP</u>
	<u>BY</u>	<u>DATE REF.</u>
2. Compare the information for consistency with:		
a. Management's responses to the above inquiries.	_____	_____
b. Audited financial statements.	_____	_____
c. Other knowledge obtained during the examination of the financial statements.	_____	_____
3. Consider whether representations on required supplementary information should be included in the request for the management representation letter.	_____	_____
4. Make additional inquiries if application of the above procedures indicates that the 10-year historical trend information may not be measured or presented in accordance with GASB guidelines.	_____	_____
 I. Overall Conclusion		
1. In our opinion, we have obtained sufficient evidential matter to provide reasonable assurance that:		
a. The physical evidences of ownership of investments reported in the financial statements (stock certificates, bonds, notes, etc.) are on hand or held in custody or safekeeping by others for account of the client's pension trust funds;	_____	_____
b. Investments and the related income are properly valued, allocated, classified and described in the financial statements;	_____	_____
c. Adequate disclosure has been made of the pledging of any investments and credit risks are properly disclosed as required by GASB Statement No. 3;	_____	_____
d. Insurance contracts and accounts established to fund employee benefits are appropriately reported in the financial statements;	_____	_____



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- e. The amounts received or due the plan have been determined in accordance with plan requirements and recorded and reported in conformity with generally accepted accounting principles, including the establishment of an appropriate valuation allowance;
- f. Benefit payment amounts conform to plan provisions;
- g. Financial statement representations are consistent with actuarial findings;
- h. Applicable accounting principles have been consistently applied; and,
- i. Required supplementary information has been presented in accordance with guidelines established for its presentation and measurement;

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Except as follows:

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

This audit program section has been completed in accordance with firm policy.

Date

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 Done by

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 Reviewed by

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The material included in this section is presented for illustrative purposes only. The illustrative audit objectives and illustrative audit procedures are neither all-inclusive nor are they prescribed minimums. The illustrative audit procedures are numbered merely to organize the materials; those numbers are not intended to imply completeness or a prescribed sequence. The nature, extent and timing of the auditing procedures to be applied on a particular engagement are a matter of professional judgment to be determined by the auditor based on the specific facts and circumstances.

## XI. Financial Reporting

### Financial Statement Assertions:

1. Existence or occurrence.
2. Completeness.
3. Rights and obligations.
4. Valuation or allocation.
5. Presentation and disclosure.

### Objectives:

- A. The financial statements being reported upon are fairly stated in accordance with generally accepted accounting principles consistently applied, including all required disclosures, or in accordance with another comprehensive basis of accounting. (Assertions 1, 2, 3, 4 and 5)
- B. Our report on the examination is appropriately worded, and in conformity with generally accepted auditing standards.

**NOTE:** The letters preceding each of the above audit objectives serve as identification codes. These codes are presented in the objective column when the audit step accomplishes the specific audit objective. If the letter appears in parenthesis, i.e., [A], [B], etc., the audit procedure only secondarily accomplishes the objective.

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### Procedures:

- A. Evaluation of Internal Control Structure
  1. Review the documentation and conclusions resulting from the steps taken to understand and test the internal control structure policies, procedures,

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	and records relevant to planning the audit of financial reporting.	_____	_____	_____
	2. Consider the understanding obtained of the internal control structure, the assessed level of control risk (together with assessment of inherent risk), and the acceptable level of detection risk to determine the nature, timing, and extent of substantive tests.	_____	_____	_____
	3. Revise the audit program, as appropriate, following the consideration of the internal control structure and related audit risks.	_____	_____	_____
<b>B. Analytical Procedures</b>				
	1. Review the planning procedures applicable to analytical procedures performed on the financial statements and consider the result of the procedures in determining the nature, timing, and extent of other audit procedures.	_____	_____	_____
	2. Revise the audit program, as appropriate, following consideration of the results of the analytical procedures.	_____	_____	_____
	3. If analytical procedures are used for substantive testing purposes, document the basis for the expected relationship, the results of the comparison of the recorded amount to the expectation, and the results of the evaluation of unexpected differences between the recorded amount and the expectation.	_____	_____	_____
<b>C. Other Auditing Procedures</b>				
A	1. Obtain, or prepare a trial balance of general ledger accounts for the working papers, trace balances to general ledger and foot the trial balance.	_____	_____	_____
A	2. Review client's year-end adjusting journal entries for unusual items.	_____	_____	_____

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A	3. Post all adjusting and reclassification journal entries that have properly been approved by firm and client personnel to the working papers, and give a copy of appropriate entries to the client for posting to the books.	_____	_____
A	4. Prepare a summary of passed adjustments which reflects the net effect of such adjustments on individual fund assets, liabilities, equity, revenue, and expenditures. Determine if the overall effect on each fund type is material and state conclusion in summary. Consider the need for additional audit adjustments.	_____	_____
A	5. Extend trial balances and compare to amounts reported in the financial statements.	_____	_____
A	6. Obtain confirmation letters from the client's attorneys.	_____	_____
	a. Ascertain that replies received are complete and that all contingencies mentioned are considered for possible disclosure in the financial statements.	_____	_____
	b. Obtain opinion as to compliance of the budget adoption and approval process.	_____	_____
A	7. Obtain signed minutes representation letter and ascertain that we have received and reviewed all minutes listed in the letter.	_____	_____
A	8. Obtain signed management representation letter. Include appropriate reference to budget adoption.	_____	_____
A	9. Examine the appropriate statements of economic interests for purposes of review regarding any possible conflicts of interest.	_____	_____

		<u>DONE</u>	<u>WP</u>
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A	10. Examine and schedule surety bonds. Determine legal requirements with regard to adequacy of coverage.	_____	_____
A	11. Ascertain that all required disclosures are included in the financial statements or notes. See AICPA <u>Disclosure Checklists for State and Local Governmental Units</u> .	_____	_____
B	12. Ascertain that the independent auditors' report is appropriately worded.	_____	_____
A	13. Have the client review and approve the final draft of the financial statements.	_____	_____
	14. Make appropriate notations regarding matters to be discussed with audit partner, manager, or in-charge auditor.	_____	_____
<b>D. Overall Conclusions</b>			
	1. In our opinion, we have obtained sufficient and competent evidential matter to provide reasonable assurance that:		
	a. The financial statements being reported upon are fairly stated in accordance with generally accepted accounting principles consistently applied, including all required disclosures, or in accordance with another comprehensive basis of accounting; and,	_____	_____
	b. Our report on the audit is appropriately worded and in conformity with generally accepted auditing standards;		

DONE      WP  
BY   DATE   REF.

Except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

This audit program section has been completed in accordance with firm policy.

Date

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Done by

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Reviewed by

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XII. Budget Compliance

Financial Statement Assertions:

1. Existence or occurrence.
2. Completeness.
3. Rights and obligations.
4. Valuation or allocation.
5. Presentation and disclosure.

	<u>DONE</u>		<u>WP</u>
	<u>BY</u>	<u>DATE</u>	<u>REF.</u>
I. Audit Procedures to Test Budgetary Compliance			
A. Examine evidence of monitoring process for budgetary controls.	_____	_____	_____
B. Review evidence of corrective action taken on significant variations from budget noted from the monitoring process.	_____	_____	_____
C. Review documentation of interim changes to budgeted reviews.	_____	_____	_____
D. Compare prior year's actual expenditures and revenues to current budget.	_____	_____	_____
E. Compare interim budget reports with actual results for evidence of noncompliance.	_____	_____	_____
F. For any material excess of expenditures over appropriations in individual funds:			
1. Determine whether such excess constitutes a violation of law.	_____	_____	_____
2. Determine whether such excess has adequately been disclosed.	_____	_____	_____

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G. Review reconciliation of budgetary and  
GAAP bases.

\_\_\_\_\_

This audit program section has been completed in accordance with  
firm policy.

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Done by

\_\_\_\_\_  
Reviewed by



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### XIII. Subsequent Events

#### Financial Statement Assertions:

1. Existence or occurrence.
2. Completeness.
3. Rights and obligations.
4. Valuation or allocation.
5. Presentation and disclosure.

#### Objectives:

- A. There are no significant unrecorded liabilities as of the date of the balance sheet. (Assertions 2, 3 and 5)
- B. The effect of any significant or unusual transactions occurring during the period from the balance sheet date to the date of our report is adequately considered or disclosed in the financial statements. (Assertions 1, 2, 4 and 5)

**NOTE:** The letters preceding each of the above audit objectives serve as identification codes. These codes are presented in the objective column when the audit step accomplishes the specific objective. If the letter appears in parenthesis, i.e., [A], [B], etc., the audit procedure only secondarily accomplishes the objective.

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#### Procedures:

##### A. Review Procedures

1. For period following balance sheet date, perform the following procedures in the areas summarized below. This audit program is not to be considered

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an all-inclusive summary of procedures to be performed but only a guide; the industry, accounting procedures, and internal control structure of the local government should be considered in determining the nature and extent of the review.

_____	_____	_____
-------	-------	-------

2. Attach a memorandum setting forth other records reviewed, steps performed, and your conclusions regarding the above subsequent events review.

_____	_____	_____
-------	-------	-------

B. Scope of Review

From: \_\_\_\_\_ (Audit Date)

To: \_\_\_\_\_ (Report Date - Last Date of Significant Field Work)

- A
1. For vouchers recorded in subsequent period, account for all serial numbers for subsequent period (No. \_\_\_\_\_ to No. \_\_\_\_\_) and examine vouchers over \$\_\_\_\_\_ for unrecorded liabilities.

_____	_____	_____
-------	-------	-------

- A
2. For vendors' invoices in process of being recorded at date of report, scan invoices and examine invoices over \$\_\_\_\_\_ for unrecorded liabilities.

_____	_____	_____
-------	-------	-------

- A B
3. Check register:
    - a. Account for all checks issued in subsequent period (No. \_\_\_\_\_ to No. \_\_\_\_\_).
    - b. Scan check register or numerical check file in subsequent period for amounts over \$\_\_\_\_\_ not supported by voucher.
    - c. Examine support for items over \$\_\_\_\_\_ noted in 3.b. for unrecorded liabilities.

_____	_____	_____
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_____	_____	_____
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_____	_____	_____
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		<u>DONE</u>	<u>WP</u>
		<u>BY</u>	<u>DATE REF.</u>
B	4. Review interim financial statements for period subsequent to balance sheet date and relate them to statements being reported on as well as to statements for comparable prior periods. Investigate any significant differences, results, events, or changes in accounting method.	_____	_____
B	5. Review all journal entries and scan general ledger for subsequent period for any large (\$_____) or unusual entries and obtain explanation of entries noted.	_____	_____
B	6. Review cash receipts summaries and review cash receipts data not entered in cash receipts summary for the subsequent period for large (\$_____) or unusual items and obtain explanation.	_____	_____
A B	7. Review minutes of governing body and important committee meetings. (Note: Where minutes have not been prepared in final form, obtain draft copies or inquire as to what transpired in the meetings.)	_____	_____
A B	8. Inquire of responsible officials as to the following items (attach memorandum or comments regarding significant matter discussed):		
	a. Receivables:		
	(1) Exceptional bad debt losses.	_____	_____
	b. Property and equipment:		
	(1) Purchase or sale of major plant/equipment.	_____	_____
	(2) Commitments or plans for major purchases or sales of plant/equipment.	_____	_____
	(3) Loss of plant/equipment due to fires, abandonment, etc.	_____	_____

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c. Liabilities:

- (1) New borrowings, including important covenants agreed to in connection therewith.
- (2) Liabilities in dispute or being contested, such as creditors' invoices.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

d. Litigation:

- (1) Pending lawsuits and/or settlements of lawsuits.
- (2) Wage negotiations or strikes in progress or pending.
- (3) Penalties assessed (such as environmental type penalties).
- (4) Loss of significant grant funds or notices of potential disallowances.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

e. Other matters:

- (1) Changes in accounting and/or financial policies.
- (2) Illegal acts.
- (3) Others (list as applicable):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

9. Make appropriate notations regarding matters to be discussed with audit partner, manager, or in-charge auditor.

\_\_\_\_\_

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C. Overall Conclusions

1. In our opinion, we have obtained sufficient and competent evidential matter to provide reasonable assurance that:

a. There are no significant unrecorded liabilities as of the date of the balance sheet; and,

\_\_\_\_\_

b. The effect of any significant and/or unusual transactions occurring during the period from the balance sheet date to the date of our report is adequately considered and/or disclosed in the financial statements;

Except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_

This audit program section has been completed in accordance with firm policy.

Date

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Done by

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Reviewed by

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#### XIV. Federal Financial Assistance (Single Audit)

##### Financial Statement Assertions:

1. Existence or occurrence.
2. Completeness.
3. Rights and obligations.
4. Valuation or allocation.
5. Presentation and disclosure.

##### Objectives:

- A. The financial statements of the entity are presented in conformity with GAAP. (Assertions 1, 2, 3, 4 and 5)
- B. The local government's internal control structure provides reasonable assurance that it is managing Federal and state financial assistance programs in compliance with applicable laws and regulations. (Assertions 1 and 2)
- C. The local government has complied with laws and regulations that have a material effect on the financial statements and on each major federal financial assistance program. (Assertions 1, 2 and 3)

**NOTE:** The letters preceding each of the above audit objectives serve as identification codes. These codes are presented in the objective column when the audit step accomplishes the specific objective. If the letter appears in parenthesis, i.e., [A], [B], etc., the audit procedure only secondarily accomplishes the objective.

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Procedures:

A. Audit Planning

1. Review applicable laws, regulations, and other references governing performance of the single audit of Federal financial assistance (see Section 5610). \_\_\_\_\_
2. Obtain a copy of the local government's single audit report from the preceding year. Make note of Federal programs, reportable conditions relating to the internal control structure, and any compliance findings. Obtain copy of client's corrective action plan. Determine if any state programs are to be included in the audit scope. \_\_\_\_\_
3. Review and discuss with responsible local government officials the procedures used to administer Federal programs. \_\_\_\_\_
4. Obtain a schedule of Federal financial assistance, reconcile the schedule to the general accounting records, and:
  - a. Determine that the schedule includes all types of Federal assistance as defined by OMB Circular A-128, paragraph 5.b. \_\_\_\_\_
  - b. Determine that the schedule reports Federal "programs," not individual grants. Federal programs are defined in the Catalog of Federal Domestic Assistance. \_\_\_\_\_
  - c. Determine the entity for Single Audit purposes. \_\_\_\_\_
  - d. Where appropriate contact the cognizant agency and receive input on important areas. \_\_\_\_\_
  - e. Determine that the schedule shows at a minimum:
    - (1) The program title and the CFDA number for each program, unless

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the program is not included in the Catalog of Federal Domestic Assistance. Those programs not included in the Catalog should be shown as other Federal assistance;

\_\_\_\_\_

(2) Total expenditures for each Federal program by grantor, department, or agency; and,

\_\_\_\_\_

(3) Total Federal financial assistance expenditures.

\_\_\_\_\_

5. Rank the federal programs in descending order by expenditure amount, determine the major program threshold, and identify the major Federal financial assistance programs.

\_\_\_\_\_

6. For testing internal controls: If expenditures for all major programs do not exceed 50 percent of total Federal financial assistance program expenditures, or if the local government has no major Federal financial assistance programs, select the largest nonmajor programs until at least 50 percent of total Federal financial assistance expenditures are included.

\_\_\_\_\_

7. Review samples selected during tests of the internal control structure and the audit of the general purpose financial statements and identify nonmajor program transactions included therein.

\_\_\_\_\_

8. Prepare a working paper showing the Federal programs to be subjected to further auditing procedures and indicate the nature of the procedures to be applied to each program. Such procedures may include:

a. "Obtaining an understanding" of the internal control structure policies and procedures relevant to the programs administered (required for all Federal programs; however, see PCIE Position Statement No. 3 that provides for the rotation of nonmajor



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programs on a 3-year basis for purposes of obtaining an understanding of the internal control structure).	_____	_____	_____
b. Internal control structure evaluation (required for all major programs and nonmajor programs selected pursuant to the "50 percent rule").	_____	_____	_____
c. Program compliance review (required for all major programs to determine compliance with laws and regulations material in effect to the respective program).	_____	_____	_____
d. Transaction compliance review (required for nonmajor program transaction selected for testing as a result of the audit of the general purpose financial statements).	_____	_____	_____
9. While testing internal controls, obtain an understanding of the possible effects on each major program (and the largest nonmajor programs if the 50% rule must be applied) of applicable program laws, rules, and regulations. Document this understanding by listing those laws, rules, and regulations which may have a material effect on the allowability of program expenditures in the event of substantial noncompliance. These laws, rules, and regulations shall be considered during the evaluations of administrative controls, tests of transactions, and other procedures deemed necessary (e.g., tests of compliance with matching requirements).	_____	_____	_____
10. Determine if the local government has an indirect cost allocation plan.	_____	_____	_____
11. Determine the extent to which grantor funds have been disbursed to subrecipients.	_____	_____	_____
12. Discuss with client the format desired for the Single Audit Report (included in the CAFR, separate Single Audit Report, etc.).	_____	_____	_____

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B. Internal Control Structure Evaluation

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Identify the significant categories of internal controls.   | _____ | _____ | _____ |
| 2. For major and nonmajor programs obtain an understanding of the internal control structure policies and procedures relevant to the programs administered. (Note: PCIE Statements 2 and 3 permit obtaining an understanding of the internal control structure for nonmajor programs on a 3-year cycle.)           | _____ | _____ | _____ |
| 3. For major programs (and selected non-major programs selected pursuant to the "50 percent rule"), perform tests of controls to evaluate the effectiveness of the design and operation of the internal control structure policies and procedures relevant to preventing or detecting material noncompliance with: |       |       |       |
| a. Specific Requirements: For example of common procedures which should be evaluated as part of a basis for issuing an opinion on compliance with laws and regulations applicable to Federal financial assistance programs, see AAM section 4600.  |       |       |       |
| (1) Types of services allowed or not allowed;  | _____ | _____ | _____ |
| (2) Eligibility;   | _____ | _____ | _____ |
| (3) Matching, level of effort, or earmarking;  | _____ | _____ | _____ |
| (4) Reporting;   | _____ | _____ | _____ |
| (5) Special tests and provisions.  | _____ | _____ | _____ |
| b. General Requirements: For examples of common control procedures which should be evaluated as part of a basis for issuing an opinion on compliance with laws and regulations applicable to federal financial assistance programs, see AAM section 4600.  |       |       |       |

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	(1) Civil rights;	_____	_____	_____
	(2) Political activity;	_____	_____	_____
	(3) Cash management;	_____	_____	_____
	(4) Davis-Bacon Act;	_____	_____	_____
	(5) Relocation assistance and real property management;	_____	_____	_____
	(6) Federal financial reports;	_____	_____	_____
	(7) Allowable costs/cost principles;	_____	_____	_____
	(8) Drug-Free Workplace Act;	_____	_____	_____
	(9) Administrative requirements.	_____	_____	_____
	c. Revise audit program as appropriate.	_____	_____	_____
<b>C. Compliance Procedures</b>				
A	1. For selected grants determine that grant receipts were properly recorded, classified, and that requests were in compliance with grant conditions.	_____	_____	_____
	a. Review receipts issued shortly before and shortly after year-end to determine that all cash collected has been recorded in the proper period.	_____	_____	_____
A [C]	2. For each major Federal and state program, select a sample of expenditures charged and determine whether:			
	a. Expenditures appeared reasonable and necessary for the program;	_____	_____	_____
	b. Expenditures were for allowable charges under the terms of the program and were adequately documented;	_____	_____	_____
	c. Expenditures were properly authorized and recorded as to program, account, amount, and period;	_____	_____	_____

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- d. Records document that those who received services or benefits were eligible to receive them. \_\_\_\_\_
- e. Expenditures were in accordance with the provisions of OMB Compliance Supplement for Single Audits of State and Local Governments applicable to the particular transaction; \_\_\_\_\_
- f. Expenditures were in accordance with the provisions of OMB Circular A-87 applicable to the particular transaction; \_\_\_\_\_
- g. Expenditures were in accordance with the provisions of OMB Circular A-102 and the "Common Rule" to the extent applicable to the grantor and the particular transaction; and, \_\_\_\_\_
- h. Expenditures were in accordance with applicable State laws and program requirements. \_\_\_\_\_

C

- 3. For each major Federal and state program and selected nonmajor Federal programs, as applicable, perform general (see supplemental audit program on general requirements) and specific compliance tests. List programs and attach separate work programs based on the Compliance Supplement for Single Audits of State and Local Governments or other sources (grants agreements, etc.):
  - a. \_\_\_\_\_
  - b. \_\_\_\_\_
  - c. \_\_\_\_\_
  - d. \_\_\_\_\_

C

- 4. Determine that nonmajor program transactions tested as part of the audit of the general purpose financial statements comply with the laws and regulations applicable to each of the respective transactions. This includes the following:

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- a. Expenditures appeared reasonable and necessary for the program; \_\_\_\_\_
- b. Expenditures were for allowable charges under the terms of the program and were adequately documented; \_\_\_\_\_
- c. Expenditures were properly authorized and recorded as to account, amount, and period. \_\_\_\_\_
- d. Records document that those who received services or benefits were eligible to receive them; and, \_\_\_\_\_
- e. Amounts were determined according to Circular A-87 and Circular A-102. \_\_\_\_\_

D. Test of Subrecipient Compliance

- 1. If the local government does not pass through federal monies to subrecipients (receiving at least \$25,000) of Federal programs, check here \_\_\_\_\_ and omit the balance of this section. \_\_\_\_\_
- C      2. Determine all subrecipients receiving at least \$25,000. \_\_\_\_\_
- C      3. Review the local government's controls established to monitor that the subrecipient spent the Federal funds in compliance with applicable laws and regulations. (OMB Circulars A-87, A-102, and A-128) \_\_\_\_\_
- C      4. Determine that the local government monitored the subrecipient audit reports (the subrecipient must have met the audit requirements of A-110 or A-128) or has taken any corrective measures required. \_\_\_\_\_

E. Property

- A      1. For selected property items acquired with grant funds, review the property records to determine that the records include a description of the property, a serial number or other identification

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number, the source of the property, who holds title, acquisition date, cost, location, use and condition of the property, percentage of Federal participation, and disposition data.

\_\_\_\_\_

2. Determine that title to the property has been properly recorded in the government's name.

\_\_\_\_\_

3. Determine that a physical inventory of property is taken and reconciled to the property records at least once every two years.

\_\_\_\_\_

4. For property dispositions, review supporting documentation to ascertain the conditions of disposition and determine that any required settlements have been made with the awarding agency.

\_\_\_\_\_

F. Reporting on Federal and State Financial Assistance

1. Determine that we have requested confirmation letters from the client's attorneys which included references to the Single Audit. Ascertain that replies are complete and that all contingencies are mentioned, as well as any issues of noncompliance with Federal regulations, are considered for possible disclosure in the Single Audit Report.

\_\_\_\_\_

2. Determine that the signed management representation letter(s) contained references regarding Single Audit representations.

\_\_\_\_\_

3. If the local government requests that the Report on Federal and State Financial Assistance be included with their annual financial statements, prepare the Independent Auditor's Report on such financial statements and determine that it is appropriately worded and dated.

\_\_\_\_\_

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4. If the client requests a separate Report on Federal and State (if applicable) Financial Assistance, prepare the Independent Auditor's Report on the schedule of Federal and State financial assistance.	_____	_____	_____
5. Prepare the schedule of findings and questioned costs. (See Appendix D.)	_____	_____	_____
6. Prepare the Independent Auditor's Report on the internal control structure based on an evaluation made as part of the audit of the general purpose financial statements.	_____	_____	_____
7. Prepare the Independent Auditor's Report on Internal Control Structure Used in Administering Federal Financial Assistance Programs required by the Single Audit Act.	_____	_____	_____
8. Prepare the Independent Auditor's Report on compliance with laws and regulations that may have a material effect on the general purpose financial statements.	_____	_____	_____
9. Prepare the Independent Auditor's Reports on compliance required by the Single Audit Act.	_____	_____	_____
10. Review the Single Audit Report draft with appropriate local government officials.	_____	_____	_____
<b>G. Overall Conclusion</b>			
1. In our opinion, we have obtained sufficient and competent evidential matter to provide reasonable assurance that:			
a. The local government has complied with laws and regulations that may have a material effect upon the financial statements;	_____	_____	_____

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b. That the local government's internal control structure provides reasonable assurance that the local government is managing its Federal programs according to the applicable laws and regulations;

\_\_\_\_\_

c. That the local government has complied with laws and regulations that may have a material effect upon each major Federal program, according to generally accepted auditing standards, the provisions of Government Auditing Standards, promulgated by the U.S. General Accounting Office, as they pertain to financial audits, the Single Audit Act of 1984 (Pub. Law No. 95-502) the provisions of the Office of Management and Budget's Circular No. A-128, Audits of State and Local Governments, and the Compliance Supplement for Single Audits of State and Local Governments, except as follows:

\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_

This audit program section has been completed in accordance with firm policy.

Date

\_\_\_\_\_  
Done by

\_\_\_\_\_

\_\_\_\_\_  
Reviewed by

\_\_\_\_\_



The material included in this section is presented for illustrative purposes only. The illustrative audit objectives and illustrative audit procedures are neither all-inclusive nor are they prescribed minimums. The illustrative audit procedures are numbered merely to organize the materials; those numbers are not intended to imply completeness or a prescribed sequence. The nature, extent and timing of the auditing procedures to be applied on a particular engagement are a matter of professional judgment to be determined by the auditor based on the specific facts and circumstances.

XV. Financial Assistance Supplement

A. Test of General Compliance Requirements

1. Political Activity

Compliance Requirement—Federal funds cannot be used for partisan political activity of any kind by any person or organization involved in the administration of federally-assisted programs. (Hatch Act (5 U.S.C. 1501-1508) and Intergovernmental Personnel Act of 1970 as amended by Title VI of the Civil Service Reform Act (Public Law 95-454, Section 4728)).

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|---|-------|-------|-------|
| a. Test the expenditures and related records for indications of lobbying activities, publications, or other materials intended for influencing legislation or similar type costs. | _____ | _____ | _____ |
| b. Test the personnel and payroll records, and identify persons whose responsibilities or activities include political activity.  | _____ | _____ | _____ |
| c. Test whether the above costs, if any exist, are charged, directly or indirectly, to federally-assisted programs.   | _____ | _____ | _____ |

2. Davis-Bacon Act

Compliance Requirement—When required by the Federal grant program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction projects financed by Federal assistance must be paid wages not less than those established for the locality of the project by the Secretary of Labor. (40 Stat. 1494, Mar. 3, 1921, Chap. 411, 40 U.S.C. 276A-276A-5)

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- |   |       |       |       |
|---|-------|-------|-------|
| a. Identify the programs involving construction activities.   | _____ | _____ | _____ |
| b. Review selected construction contracts and subcontracts and determine whether they contain provisions requiring the payment of "prevailing" wages.             | _____ | _____ | _____ |
| c. Review the Government's system for monitoring applicable contractors and subcontractors with respect to payment of prevailing wages and evaluate for adequacy. | _____ | _____ | _____ |
| d. Review the monitoring system for contracts for selected programs and determine whether there is adherence to prescribed procedures.                            | _____ | _____ | _____ |
| e. For Governments who have not developed a system, or whose system is not operating effectively:   |       |       |       |
| (1) Obtain the "local" DOL wage determination from the recipient, the architect/engineer (A/E) managing the project, or DOL.                                      | _____ | _____ | _____ |
| (2) Obtain from the auditee payroll registers of the construction company and test to determine whether wages paid conform to the prevailing wages.               | _____ | _____ | _____ |

3. Civil Rights

Compliance Requirement—No person shall, on the grounds of race, color, national origin, age, or handicap, be excluded from participation in or be subjected to discrimination in any program or activity funded, in whole or in part, by Federal funds. Discrimination on the basis of sex or religion is also prohibited in some Federal programs. (Age--42 U.S.C. 6101 et seq.; Race--42 U.S.C. 2000d; Handicap--29 U.S.C. 794.)

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- a. Determine whether the governmental unit has announced a formal policy of nondiscrimination. \_\_\_\_\_
- b. For recipients employing 15 or more persons, ascertain whether a person has been designated to oversee civil rights compliance. \_\_\_\_\_
- c. Ascertain from the grant agreement(s) whether any of the programs contain prohibitions against discrimination on the basis of sex or religion. \_\_\_\_\_
- d. Ascertain the number of complaints filed with Federal, State and/or local agencies responsible for ensuring nondiscrimination in government programs during the fiscal year, the status of unresolved complaints or investigations and the actions taken on resolved complaints or completed investigations. \_\_\_\_\_
- e. Ascertain whether programs contain prohibitions against discrimination in employment; for those programs (1) review the annual report filed with the Equal Employment Opportunity Commission (EEOC), if any and (2) ascertain the number of complaints or completed investigations; and, (3) review the status of unresolved complaints or investigations and the actions taken on unresolved complaints or completed investigations. \_\_\_\_\_

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f. Determine whether facilities financed by Federal funds that are required to be located in a non-discriminatory manner are so located.

\_\_\_\_\_

g. Obtain representation and/or attorney letters to determine if any civil rights suits have been adjudicated or are pending.

\_\_\_\_\_

4. Cash Management

Compliance Requirement—Grantee financial management systems shall include procedures to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement of funds by the Grantee.

Advances made by primary recipients to secondary recipients shall conform substantially to the same standards of timing and amount as apply to advances by Federal agencies to primary recipient organizations.

(OMB Circular A-102; Intergovernmental Cooperation Act of 1968, P.L. 90-577 (sec. 403), as amended by P.L. 96-470, Title I, Section 10-1(b)).

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a. Review the Government's cash forecasting process and evaluate for adequacy.<sup>1</sup>

\_\_\_\_\_

b. Review the Government's system for requesting Federal funds and evaluate whether it is adequate to keep Federal Cash disbursements limited to the Government's immediate needs.

\_\_\_\_\_

c. For selected grant programs, determine dates and amounts for selected advances, drawdowns, and other re-

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<sup>1</sup>For purposes of the compliance supplement, adequacy can be interpreted as providing a reasonable assurance that the system or procedures, if followed, will result in the intended event or action occurring.

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ceipts of Federal funds and compare to the dates the funds were disbursed or checks were presented to the banks for payment.

\_\_\_\_\_

d. For the same programs, evaluate the size of the balances in relation to the program's needs.

\_\_\_\_\_

e. Review the Government's system for monitoring advances and payment requests by secondary recipients. Evaluate whether the system is sufficient to limit payments to amounts needed to meet immediate cash requirements.

\_\_\_\_\_

f. Review selected cash reports submitted by subrecipients and determine if the reports show large amounts of excess cash. If they do, ascertain why.

\_\_\_\_\_

5. Relocation Assistance and Real Property Acquisition

Compliance Requirements

Federal aid programs may require the acquisition of property by a public agency and subsequent displacement of households and businesses.

Grant recipients acquiring property in the administration of Federal aid must carryout certain actions systematically, e.g., have property appraised in presence of owner, review appraisals, set price and negotiate settlements. Similarly, when displacements (relocations) are involved, the recipient must, for example, provide assistance systematically in locating replacement housing, assure that it meets acceptable standards and maintain records on all acquisitions and displacements (Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA) (Public Law 91-646 as amended by the Uniform Relocation Act Amendments of 1987, Title IV of the Surface Transportation and Relocation Act of 1987 (1987 Amendments) Public Law 100-17, 101 Stat. 246-256 (See Common Rule Appendix B).

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- a. Ascertain whether the recipient is administering a Federal or federally assisted program that involves the acquisition of property or the displacement of households or businesses by a public agency. \_\_\_\_\_
  
- b. Review the organization's system for compliance with relocation assistance and real property acquisition requirements and evaluate for adequacy. \_\_\_\_\_
  
- c. Review the monitoring system for relocation and acquisition activity for selected programs and determine whether there is adherence to the prescribed procedures. \_\_\_\_\_

6. Federal Financial Reports

Compliance Requirement—Most Federal programs require the periodic submission of financial reports that fall within one or more of the following three categories. The special requirement for each grant program is presented in the Reporting Requirements (III-D) section for that program. The suggested audit procedures are provided below to facilitate the requirements for the auditor to comment on completeness and accuracy [Section .41 "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (Common Rule) and Treasury Circular 1075 "Withdrawal of Cash from the Treasury for Advances under Federal Grant and other Programs"]:

- a. Section .41, "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments," list four required financial reports that apply to most of the programs described in this document.
  - (1) Financial Status Report (SF 269 or SF 269A)—Reports status of funds for all nonconstruction programs.
  - (2) Request for Advance or Reimbursement (SF 270)—Request funds for nonconstruction programs when advance letter of credit or predetermined advance payments are not used.

- (3) Outlay Report and Request for Reimbursement for Construction Programs (SF 271)—Requests for reimbursements and reports status of funds for construction programs.
  - (4) Federal Cash Transaction (SF 272)—Reports cash transactions and balances for Grantees receiving cash by letter of credit or treasury checks.
- b. Treasury Circular 1075 lists two alternative cash management reports, one of which applies to each program financed through letters-of-credit:
- (1) Request for Payment on Letter of Credit and Status of Funds Report (SF 183).
  - (2) Payment Voucher on letter of Credit (TFS 5041).
- c. Certain Federal agencies have received OMB approval to adapt the above reports or require other financial reports to meet their particular program needs.

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- |  |       |       |       |
|--|-------|-------|-------|
| (1) Review the procedures for preparing the Federal financial reports and evaluate for adequacy.                               | _____ | _____ | _____ |
| (2) Sample Federal financial reports for each material program and review for completeness of submission.                      | _____ | _____ | _____ |
| (3) Trace data to the supporting documentation, i.e., worksheets, ledgers, etc.  | _____ | _____ | _____ |
| (4) Review adjustments made to the general ledger amounts in the report affecting Federal programs and evaluate for propriety. | _____ | _____ | _____ |

7. Allowable Costs/Cost Principles

Compliance Requirement (Direct and Indirect Costs)

The cost of a federally-supported program is comprised of the allowable direct cost of the program plus its allocable portion of allowable indirect costs less

applicable credits. Federal cost principles are designed to provide that federally-assisted programs bear their fair share of recognized costs as determined by allowable cost principles. No provision for profit or other increment above cost is intended.

OMB Circular No. A-87, "Cost Principles for State and Local Governments," establishes principles and standards for determining costs applicable to grants, contracts, and other agreements with State and local governments and federally-recognized Indian Tribal governments. A cost is allowable for Federal reimbursement only to the extent of benefits received by Federal programs, and costs must meet the basic guidelines of allowability, reasonableness, allocability and remain the net of all applicable credits.

[OMB Circular No. A-87 is issued under the authority of the Budget and Accounting Act of 1921, as amended; the Budget and Accounting Procedures Act of 1950, as amended; Reorganization Plan No. 2 of 1920; and, Executive Order 11541.]

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For transactions selected by the auditor which involve Federal funds, determine whether the costs meet the criteria set forth in the "Basic Guidelines" of Circular A-87, Attachment A, paragraph C, i.e., that the cost is:

- a. Necessary and reasonable for the performance and administration of the Federal program and be allocable thereto under the provisions of the Circular. \_\_\_\_\_
- b. Authorized or not prohibited under State or local laws or regulations. Certain costs require specific approval by the grantor agency while some costs are not allowable as set forth in Circular A-87, Attachment A. \_\_\_\_\_
- c. Conforms to any limitations or exclusions set forth in Circular A-87, or limitations in the program agreement or specific requirements in the program regulations. \_\_\_\_\_



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d. Given consistent treatment with policies, regulations and procedures applied uniformly to Federal and non-Federal activities of the governmental unit.	_____	_____
e. Given consistent accounting treatment within and between accounting periods and not allocable to or included as a direct cost of a Federal program if the same or similar costs are allocated to the Federal program as an indirect cost.	_____	_____
f. Determined in accordance with generally accepted accounting principles.	_____	_____
g. Not included as a cost or used to meet cost sharing requirements of other federally-supported activity of the current or prior period.	_____	_____
h. Net of all applicable credits, e.g., volume or cash discounts, refunds, rental income, trade-ins, scrap sales, direct billings (in the case of indirect cost), etc.	_____	_____
i. Supported by underlying documentation, e.g., time and attendance payroll records, time and effort records for employees charged to more than one activity, approved purchase orders, receiving reports, vendor invoices, cancelled checks, etc., as appropriate, and is correctly charged as to program, account, amount and period.	_____	_____

Compliance Requirement (Indirect Costs Only)

In order to get reimbursed for indirect costs or centralized services, recipients must prepare cost allocation plans (CAP) and/or indirect cost rate proposals (IDCRP) that provide a basis for allocating indirect costs to Federal programs. Each State, State department and major local unit of government, as well as any other organization specifically requested to do so, must submit its CAP/IDCRP to its cognizant agency for approval. Other unlisted organizations must prepare the appropriate plans/proposals and maintain them on

file for later review but may use their results in the meantime.

CAPs and IDCRRPs are usually prepared on a prospective basis using actual financial data from a prior year or budgeted data for the current year. When the actual costs for the year are determined the difference between the originally proposed costs and the actual costs are either carried forward to a subsequent CAP/IDCRP or adjusted with the granting Federal agency on a retro-active basis. In cases where fixed rates are determined and approved by the cognizant Federal agency, subsequent adjustments are not made.

There are three types of plans/proposals:

- *State and Local Government-Wide Cost Allocation Plans*—which describe the methods to be used for billing centralized services (such as computer centers, fringe benefits, motor pools, etc.) to individual user organizations/activities (referred to as Section II costs) and which allocate the costs of unbilled central services (such as accounting, personnel, etc.) to the individual user departments or activities (Section I costs).
- *Departmental or Local Indirect Cost Rate Proposals*—which combine the billed or allocated costs (if any) from the Statewide or local-wide plan with the departmental or local level indirect costs and compute an indirect cost rate(s) to be used in charging indirect costs to direct programs and activities.
- *Public Assistance Cost Allocations Plans*—which describe the methods to be used to allocate State-or local-wide allocated or billed indirect costs and departmental indirect, administrative, and operating costs of State or local welfare or human services organizations to the Medicaid, Food Stamps, Child Welfare programs, etc. These plans are required by the terms of 45 CFR Part 95 which incorporates Circular A-87 by reference and are required to be revised and submitted to the Federal Government whenever an organizational or programmatic change invalidates the currently-approved approach.

Audit procedures must be tailored according to the size and type of organization being reviewed.

Auditing Procedures (General)

Determine whether indirect costs or centralized or administrative services are being charged to Federal awards. If not, the rest of this section does not apply. If such costs are being charged, the following guidelines should be followed:

- a. Obtain and read the current CAP and/or Negotiation Agreement and determine the types of rates and procedures required. \_\_\_\_\_
- b. Select a sample of claims for reimbursement submitted to the Federal agency and determine if the amounts charged and rates used are in accordance with the plan and if rates are being properly applied to the appropriate base. \_\_\_\_\_
- c. Determine whether the CAPs or IDCPRs have been approved by the appropriate Federal agency and whether or not the resultant rates or amounts charged are final or are still open to adjustment or revision, either immediately or as a carryover adjustment in a future period. If approved and final, the results of the audit work shall be reflected, if appropriate, in recommendations for future procedural improvements. \_\_\_\_\_
- d. Review on a test basis supporting documentation to determine whether:
  - (1) The indirect cost pool or centralized service costs contain only items that are consistent with the applicable cost principles and negotiated agreements. \_\_\_\_\_
  - (2) The methods of allocating the costs are in accordance with the provisions of Circular A-87, other applicable regulations and negotiated agreements. \_\_\_\_\_

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(3) Statistical data (e.g., square footage, population, operating time, miles driven, case counts, salaries and wages) in the proposed allocation or rate bases are reasonable, updated as necessary and do not contain any material omissions.

\_\_\_\_\_

(4) Time studies or time and effort reports (where and if utilized) are mathematically and statistically accurate, are implemented as approved, and are based on the actual effort devoted to the various functional and programmatic activities to which the salary and wage costs are charged.

\_\_\_\_\_

(5) The indirect costs charged to Federal programs are supported by amounts recorded in the accounting records from which the most recently-issued financial statements were prepared.

\_\_\_\_\_

(6) Other adjustments are made to compensate for differences between actual and estimated costs of fiscal years.

\_\_\_\_\_

Auditing Procedures — State-Wide and Local-Wide Plans

a. For Section II (direct billed) services, determine whether:

(1) The rate basis includes all users and treats them in a consistent manner.

\_\_\_\_\_

(2) Any retained earning or unexpended earnings (including reserves) are present and, if so, determine: (a) if they have been computed in accordance with the applicable cost principles, (b) if they are excessive in amount, and (c) whether a refund has been made to the Federal

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Government for its fair share of any amounts thereof which have been removed (transferred out) or borrowed from the fund.

\_\_\_\_\_

(3) Fringe benefit allocations, charges or rates deal fairly with differing levels, if any, of benefits provided to different classes of employees.

\_\_\_\_\_

(4) Independent actuarial studies appropriate for self-insurance programs and certain type of fringe benefit programs are performed and, if so, are kept current.

\_\_\_\_\_

b. Costs chargeable directly to Federal grants or any other direct activity (including any costs required for matching or cost sharing) have been excluded from the pool of indirect costs and been included in the base.

\_\_\_\_\_

c. The users of services are billed in a consistent manner and billing rates (or charges) have been adjusted to eliminate profits and unallowable costs.

\_\_\_\_\_

8. Drug-Free Workplace Act

*Compliance Requirement*

All grantees receiving grants, including cooperative agreements, from any Federal agency must certify that they will provide a drug-free workplace, or, in the case of a grantee who is an individual, certify to the agency that his or her conduct of grant activity will be drug-free. Making the required certification has been a precondition of receiving a grant from a Federal agency since March 18, 1989. Every grantee, except a State or State agency, is required to make this certification for each grant. A State or a State agency may elect to make a single annual certification to each Federal agency from which it obtains grants if the Federal agency has designated a central location for submission.

The grantee certifies that it will provide a drug-free workplace by:

- a. Publishing a policy statement notifying employees that the unlawful manufacture, distribution, dispensing, possession or use of a controlled substance is prohibited in the grantee's workplace and specifying the actions that will be taken against employees for violation of such prohibition;
- b. Establishing an ongoing drug-free awareness program to inform employees about:
  - The dangers of drug abuse in the workplace;
  - The grantee's policy of maintaining a drug-free workplace;
  - Any available drug counseling, rehabilitation, and employee assistance programs; and,
  - The penalties that may be imposed upon employees for drug abuse violations occurring in the workplace;
- c. Making it a requirement that each employee to be engaged in the performance of the grant be given a copy of the statement required by paragraph a;
- d. Notifying the employee in the statement required by paragraph a. that, as a condition of employment under the grant, the employee will:
  - Abide by the terms of the statement; and
  - Notify the employer in writing of any criminal drug statute conviction for a violation occurring in the workplace no later than five calendar days after such conviction;
- e. Notifying the agency in writing within ten calendar days after receiving notice under subparagraph (d)(2) from an employee or otherwise receiving actual notice of such conviction;
- f. Taking one of the following actions, within 30 calendar days of receiving notice under subparagraph (d)(2), with respect to any employee who is so convicted:
  - Taking appropriate personnel action against such an employee, up to and including termination; or
  - Requiring such employee to participate satisfactorily in a drug abuse assistance or rehabilitation program approved for such purposes by a

Federal, State, or local health, law enforcement, or other appropriate agency.  
 [Public Law 100-690 Title V, Subtitle D, 41 USC 701 et seq.]

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Auditing Procedures

- |   |       |       |       |
|---|-------|-------|-------|
| a. Determine through discussions with employees and written communications to employees whether the grantee has taken action to provide a copy of the policy statement to each employee engaged in the performance of a grant.  | _____ | _____ | _____ |
| b. Ascertain whether the statement contains all the necessary notifications.  | _____ | _____ | _____ |
| c. Determine whether the grantee had established an ongoing drug-free awareness program which meets the requirements outlined above.  | _____ | _____ | _____ |
| d. Determine whether the report made to Federal grantor agencies on conviction of employees is filed and complete.  | _____ | _____ | _____ |
| e. Test a sample of employee files and determine whether the report made to Federal grantor agencies on convictions of employees is complete and if convictions were reported within 10 calendar days after the employer received any notice of an employee's conviction. | _____ | _____ | _____ |
| f. Ascertain whether the grantee took the required personnel or treatment referral action within 30 calendar days after receiving notice of an employee conviction.   | _____ | _____ | _____ |

## 9. Administrative Requirements

Federal assistance programs, with certain exceptions, are subject to the provisions of "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (Common Rule). The Common Rule does not apply to grants and subgrants to State and local institutions of higher education or State and local hospitals; block grants authorized by the Omnibus Budget Reconciliation Act of 1981; entitlement grants and other grants or payment programs specified in the Common Rule. These exceptions are specified in the Common Rule under the Applicability provisions of Subpart A.

Three Common Rule administrative requirements, financial reporting, cost principles and cash management principles, are covered elsewhere in this section. The auditor should also consider those common agency administrative requirements listed below from Subpart C of the Common Rule. Agency regulations for those grant program requirements not covered by the Common Rule are addressed in departmental regulations.

- Interest earned on advances
- Period of availability of funds
- Program income
- Real property
- Equipment
- Supplies
- Subawards to debarred and suspended parties
- Procurement
- Subgrants
- Revolving fund repayments

DONE	WP
<u>BY</u>	<u>DATE REF.</u>

### Auditing Procedures

- a. Determine the applicable administrative requirements that are material to the Federal awards.

\_\_\_\_\_



DONE      WP  
BY   DATE   REF.

b. Review and evaluate internal controls in the administrative areas selected for review.

\_\_\_\_\_

c. Test transactions for compliance.

\_\_\_\_\_

This audit program section has been completed in accordance with firm policy.

Date

\_\_\_\_\_  
Done by

\_\_\_\_\_  
Reviewed by

## Appendix A—Auditing and Reporting Concerns

During an audit engagement, the auditor should be aware that often there are signals that may indicate a potential audit or reporting problem. Some signals or indicators may suggest the need to modify audit procedures.

Listed below are examples of indicators the auditor may encounter in an audit of a governmental unit. It should be noted that the existence of a particular indicator does not necessarily mean there is a problem requiring extended audit procedures. The list, however, should be considered by the auditor in performing analytical procedures and in designing his/her audit procedures.

### Items Highlighted Through Review of Financial Ratios or Statistics

- Revenue-based indicators:
  - Decreasing value of taxable property.
  - Increasing ratios of delinquent taxes to total tax levy.
  - Increasing ratios of maximum legal tax rates.
  - Increasing ratios of actual revenues below budgets.
  - Litigation relative to equalization of assessment actions.
- Expenditure-based indicators:
  - Increasing excesses of expenditures over revenues.
  - Increasing incidence of actual expenditures in excess of budgets.
  - Continuing increases in amount of unfunded vested benefits of pension programs.
- Cash management indicators:
  - Increasing amounts of aggregate short-term investments.
  - Increasing amounts of unpaid current obligations.
  - Decreasing income from short-term investments (that are not a result of falling interest rates).

- Debt Indicators:
  - Increasing ratio of bond indebtedness to total property value.
  - Increasing need to borrow to meet debt service requirements.
  - Increasing use of long-term debt to fund current expenditures.
  - Increasing amount of short-term borrowing remaining unpaid at the end of the fiscal year.

Nonfinancial Indicators

- Client Personnel:
  - Rapid turnover.
  - Management changes.
  - Weak financial personnel.
  - Unfilled positions due to budget limitations.
  - Internal auditors performing "special tasks" rather than auditing.
- Client relationships with auditors:
  - Accounting and reporting disputes.
- Weaknesses in accounting information system:
  - Lack of internal controls.
  - Poor cutoffs.
  - Reports not issued on a timely basis.
  - Inability to reconcile detailed records to general ledger balances.
  - Large number of exceptions in transactions or confirmations.
  - Client's inability to prepare meaningful analyses of activity.
  - Lack of timely or no budget status reports.

## Appendix B—Federal Transaction Test Criteria

The following criteria are those that often are applied during the audit of Federal transactions. These criteria are presented as examples only. Judgment must be used to determine the test criteria to be applied to a particular Federal program or transaction.

1. Was the expenditure contemplated in the approved budget?
2. Were only costs applicable to the Federal Financial Assistance Program charged?
3. Was the expenditure made in accordance with specific program compliance requirements and other limitations or exclusions in the Federal assistance agreement?
4. Was the classification of direct or indirect charges in accordance with cost allocation plan(s) or grant agreements?
5. Was prior approval obtained from the Federal granting agency, if appropriate?
6. Was there adequate documentation supporting the expenditure, including all authorization signatures, evidence of preaudits, etc?
7. Does the expenditure appear to be necessary and reasonable and "benefit" or assist in the accomplishment of the goals of the Federally assisted program?
8. Was the expenditure properly coded and recorded?
9. Were capital expenditures properly recorded in the property records and identified as required by Federal administrative guidelines, specific program compliance requirements, and Federal assistance agreements?
10. Do assets acquired with the sample Federal expenditure exist and are they being used for the purpose for which they were acquired?
11. Was the expenditure given consistent accounting treatment and applied uniformly and equitably to all benefitting activities/programs, both Federally assisted and otherwise?
12. Was the expenditure net of any applicable credits?
13. Was the expenditure incurred during the authorized grant period or authorized extension thereto?

14. Were the charges incurred in accordance with competitive purchasing procedures, if applicable?
15. If an expenditure was in violation of any Federal regulations or grant agreement terms and the auditee has asserted that such violations were approved by the Federal grantor agency, was such approval documented in writing by the Federal agency?

## Appendix C—Criteria for Determining Questioned Costs

Criteria established to determine and report questioned costs vary from one Federal agency to another. Many of the criteria are imposed by Congress at the time programs are authorized and funds are provided; however, other criteria are established through Federal agency regulations. Generally, the criteria for determining and reporting questioned costs are as follows:

- Unallowable costs. Certain costs are specifically unallowable under the general and special award conditions or agency instructions. (They include, but are not limited to, pregrant and postgrant costs and costs in excess of the approved grant budget either by category or in total.)
- Undocumented costs. Costs are charged to the grant for which adequate detailed documentation does not exist, for example, to demonstrate their relationship to the grant or the amounts involved.
- Unapproved costs. Costs that are not provided for in the approved grant budget, or costs for which the grantor contract provisions or applicable cost principles require the awarding agency's approval, but for which the auditor finds no evidence of approval.
- Unreasonable costs. Costs incurred that may not reflect the actions that a prudent person would take in the circumstances, or assigning an unreasonably high valuation to in-kind contributions.

**AAM Section 5610**

**Suggested Supplemental reference Materials for Use With Illustrative Audit Programs for State and Local Governmental Units**

.01 Suggested Supplemental Reference Materials

American Institute of Certified Public Accountants (AICPA)

Codification of Statements on Auditing Standards

Audit and Accounting Guide - Audits of State and Local Governmental Units (Revised Edition, 1986)

Audit and Accounting Guide - Audit Sampling

Audit Guide - Consideration of the Internal Control Structure in a Financial Statement Audit

Audit and Accounting Guide - Audits of Employee Benefit Plans

Audit Risk Alert - State and Local Governmental Developments - 1992

Technical Practice Aids, Sections 6950, and 6955 - State and Local Governmental Units and Single Audit Act of 1984

Ethics Interpretation 501-3 - "Failure to Follow Standards and/or Procedures or Other Requirements in Governmental Audits"

Statement of Position 89-6 - Auditors' Report in Audits of State and Local Governmental Units

Statement of Position 90-9 - The Auditor's Consideration of the Internal Control Structure Used in Administering Federal Financial Assistance Programs Under the Single Audit Act (SOP 90-9)

Statement on Auditing Standards No. 68 - Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance

Statements on Quality Control Standards - System of Quality Control for a CPA Firm

Disclosure Checklists for State and Local Governmental Units

Governmental Accounting Standards Board

Codification of Governmental Accounting and Financial Reporting Standards, May 31, 1990

Office of Management and Budget

Circular A-50 Revised: Audit Follow-up (9-82)

Circular A-87 Revised: Cost Principles for State and Local Governments (1-81) (Formerly FMC 74-4)

Circular A-102: Grants and Cooperative Agreements With the State and Local Governments (March 11, 1988)

Circular A-128: Audits of State and Local Governments (4-85)

Questions and Answers on the Single Audit Provisions of OMB Circular A-128, "Audits of State and Local Governments" (November 1987 Catalog of Federal Domestic Assistance)

Catalog of Federal Domestic Assistance

Compliance Supplement for Single Audits of State and Local Governments- Uniform Requirements for Grants to State and Local Governments (Revised September 1990)

General Accounting Office

Government Auditing Standards (1988 Revision)

Interpretation of Continuing Education Training Requirements (April 1991)

U. S. Department of Education

Student Financial Assistance Programs Audit Guide: March 1990

President's Council on Integrity and Efficiency (Single Audit Committee)

Federal Cognizant Agency Audit Organization Guidelines (including PCIE Position Statements)

Other

Public Law 98-502, Single Audit Act of 1984

Intergovernmental Cooperation Act



Uniform Administrative Requirements for Grants and Co-operative Agreements to State and Local Governments - "Common Rule" - Published March 11, 1988, Federal Register with individual Federal Agency Actions

Applicable Federal Rules and Regulations

Applicable State Laws and Administrative Rules and Regulations

Local Government Charter

Local Laws, Rules, and Regulations

**AAM Section 9200**

**Partner's Functional Area Engagement Review Program**

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
I. .010 Independence			
A. Were the policies and procedures established by the firm appropriately followed? (Are the policies and procedures in accordance with the AICPA Statements on Quality Control Standards?)	___	___	___
B. If the firm was not independent, was the lack of independence disclosed in a report limited to a disclaimer of opinion for a public company, or if applicable, to a compilation report for a nonpublic company?	___	___	___
C. Was any evidence noted during the audit which may indicate impaired independence (including a lack of objectivity or threatened litigation), and if so, was the matter identified and appropriately resolved?	___	___	___
D. Was timely and appropriate assurance of independence of other firms engaged to perform segments of the engagement obtained?	___	___	___
E. For non-SEC clients, were the fees for the prior year's services paid prior to issuance of the report for the current engagement?	___	___	___
F. For SEC clients, if the fees for the prior year's services were not paid prior to the commencement of the current engagement, were the SEC rules for unpaid professional fees adhered to as well as the AICPA rules?	___	___	___
II. .020 Assigning Personnel to Engagements			
A. Were the policies and procedures established by the firm appropriately followed? (Are the policies and procedures in accordance with the AICPA Statements on Quality Control Standards?)	___	___	___
B. Were scheduling and staffing requirements approved on a timely basis by the appropriate person?	___	___	___

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
C. Is the level of experience of the personnel assigned or supervision given appropriate for the auditor's assessment of the level of risk for the engagement?	—	—	—
D. Were the personnel assigned to the engagement sufficiently trained for the technical expertise required?	—	—	—
III. .030 Consultation			
A. Were the policies and procedures established by the firm appropriately followed? (Are the policies and procedures in accordance with the AICPA Statements on Quality Control Standards?)	—	—	—
B. If according to firm policy, consultation was required, was appropriate consultation made and documented?	—	—	—
C. If a difference of opinion on a practice problem existed between engagement personnel and a specialist or other consultant, was the difference resolved in accordance with firm policy and appropriately documented?	—	—	—
IV. .040 Supervision			
A. Were the policies and procedures established by the firm appropriately followed? (Are the policies and procedures in accordance with the AICPA Statements on Quality Control Standards?)	—	—	—
B. Was audit planning adequately documented in the working papers, including any changes in the original plan?	—	—	—
C. Were appropriate personnel assigned to the engagement involved in the planning process?	—	—	—
D. Was background information related to specialized industry developed or, if information was obtained from prior engagements, was it updated for changed circumstances (e.g., proposed work program, manpower requirements, etc.)?	—	—	—
E. Was the overall audit plan approved by the appropriate person and conveyed to the engagement staff?	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
F. Was adequate supervision provided considering the background and experience of personnel assigned to the engagement?	—	—	—
G. If specialized skills were used (e.g., computer auditing, statistical sampling, etc.) were they evaluated by persons with training in these areas? [SAS No. 48 (AU section 311)]	—	—	—
H. Were hours charged by the partner and manager both adequate and appropriately timed to provide for planning and supervision as the job progressed?	—	—	—
I. Were the form and content of audit working papers adequate and prepared in accordance with firm policy?	—	—	—
J. If required by firm policy, were all forms, checklists, and questionnaires for the following areas adequately completed and modified, where appropriate, for the engagement:			
1. Planning checklists?	—	—	—
2. Consideration of the internal control structure?	—	—	—
3. Audit work programs?	—	—	—
4. Financial statement disclosures?	—	—	—
5. Time budgets and progress reports?	—	—	—
6. Working papers and financial statement reviews?	—	—	—
K. If standardized forms, checklists, etc., were not used for any of the above areas, is there other adequate documentation?	—	—	—
L. Was the guidance in the relevant literature, including AICPA audit and accounting guides, considered during the engagement?	—	—	—
M. Was an appropriate review made of the report and financial statements to determine that they conform to professional standards and firm policy?	—	—	—

YES   NO   N/A

V. .050 Professional Development

- A. Were the policies and procedures established by the firm appropriately followed? (Are the policies and procedures in accordance with the AICPA Statements on Quality Control Standards?)      \_\_\_\_\_
- B. Does it appear that there was adequate on-the-job training (consider such things as pre-and post-audit conferences, tour of client's facilities, monitoring staff progress, etc.)      \_\_\_\_\_
- C. Were the staff on the engagement properly evaluated based on the work performed?      \_\_\_\_\_

VI. .060 Acceptance and Continuance of Clients

- A. Were the policies and procedures established by the firm appropriately followed? (Are the policies and procedures in accordance with the AICPA Statements on Quality Control Standards?)      \_\_\_\_\_
- B. Did the firm comply with its Quality Review guidelines for acceptance and continuance of clients?      \_\_\_\_\_

This audit engagement has been completed in accordance with professional standards and firm policy.

Partner \_\_\_\_\_ Date \_\_\_\_\_

**AAM Section 9230**

**Partner's Engagement Review Program for Local Governmental Units**

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
<b>I. General Audit Procedures</b>			
<b>A. .010 General</b>			
1. Has the "Partner's Functional Area Review Program" (see AAM Section 9200) been completed?	_____	_____	_____
2. In planning the audit engagement, did the firm properly consider:			
a. Matters affecting the government, such as specialized accounting practices, economic conditions, federal and state laws and regulations, and technological changes? (SAS No. 22; AU section 311)	_____	_____	_____
b. Definition of the reporting entity indicating the related organizations, functions, and activities which are either included or excluded from the financial statements in accordance with GASB Cod. Sec. 2100?	_____	_____	_____
c. Preliminary judgment about materiality levels for audit purposes? (SAS No. 47; AU section 312)	_____	_____	_____
d. Anticipated reliance on internal control structure? (SAS No. 47 and SAS No. 55; AU sections 312 and 319)	_____	_____	_____
e. Conditions that may require extension or modification of audit tests, such as the possibility of material errors or irregularities and management's ability to override controls? (SAS No. 53; AU section 316)	_____	_____	_____
f. Factors affecting the continued functioning of the government, such as legal limitations on revenue, expenditures, or debt service?	_____	_____	_____
g. Other audit risks?	_____	_____	_____

- |  | <u>YES</u> | <u>NO</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 3. If the firm succeeded a predecessor accountant, did it:   |            |           |            |
| a. Communicate with the predecessor accountant to ascertain whether there were disagreements between the predecessor accountant and the entity's management on accounting or auditing matters and consider the implications of such matters in accepting the client? | —          | —         | —          |
| b. Make other inquiries of the predecessor accountant on significant matters?  | —          | —         | —          |
| c. Satisfy itself on the fair presentation of opening balances, such as by reviewing the predecessor accountant's working papers?  | —          | —         | —          |
| 4. If consideration was given to the work of internal auditors in determining the scope of the audit, was it done in accordance with SAS No. 65 (AU section 322)?  | —          | —         | —          |
| 5. If the engagement included work performed by joint auditors or by another office correspondent, or affiliate of the firm:   |            |           |            |
| a. Do the instructions to the other office or firm appear adequate?  | —          | —         | —          |
| b. Does it appear that control exercised over the work of others through supervision and review was adequate?  | —          | —         | —          |
| c. Was there appropriate follow-up of open matters?  | —          | —         | —          |
| d. In those cases where another firm is used, were appropriate inquiries made as to its independence and professional reputation?  | —          | —         | —          |
| e. For a jointly signed audit report, are there indications that the auditor has conducted sufficient audit procedures to warrant signing the report in an individual capacity?  | —          | —         | —          |
| 6. Did the firm obtain an understanding of the internal control structure which  |            |           |            |

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
consists of the control environment, the accounting system, and control procedures? (SAS No. 55; AU section 319)	—	—	—
a. Was the understanding of the internal control structure documented? (SAS No. 55; AU section 319)	—	—	—
b. Did the firm assess the control risk? (SAS No. 55; AU section 319)	—	—	—
c. If the firm assessed control risk at below maximum level:			
(1) Were specific internal control structure policies and procedures relevant to specific assertions that are likely to prevent or detect material misstatements identified? (SAS No. 55; AU section 319)	—	—	—
(2) Were adequate tests of controls to evaluate the effectiveness of such policies and procedures performed? (SAS No. 55; AU section 319)	—	—	—
d. If the client used computer processing insignificant accounting applications, did the assessment of risk in the internal control structure include an evaluation of the extent, as well as the complexity of that processing, including those, if any, of an outside service center? (SAS Nos. 44, 48, and 55; AU sections 324, 311, and 319)	—	—	—
e. If the firm relied on the internal control structure at a service organization, was a service auditor's report obtained and appropriately considered? (SAS No. 44; AU section 324)	—	—	—
7. Was a written audit program prepared? (SAS No. 22; AU section 311)	—	—	—
a. Was it responsive to the needs of the engagement identified during the plan-			



	<u>YES</u>	<u>NO</u>	<u>N/A</u>
ning process and in light of the internal control structure? (SAS No. 53, AU section 319)	---	---	---
b. Was consideration given to applicable assertions in developing audit objectives and in designing substantive tests? (SAS No. 31, paragraphs 9 through 13; AU section 326.09-.13)	---	---	---
c. If conditions changed during the course of the audit, was the audit program modified as appropriate in the circumstances?	---	---	---
d. Have all audit program procedures been performed and signed off?	---	---	---
8. If statistical or nonstatistical sampling was used in performing tests of controls to evaluate the effectiveness of the internal control structures (SAS No. 35; AU section 319):			
a. In planning the sampling application, was appropriate consideration given to the relationship of the sample to the objective of the test of controls, maximum rate of deviations, allowable risk of assessing control risk too low, overreliance, and likely rate of deviations?	---	---	---
b. Was the sample selected in such a way that it could be expected to be representative of the population?	---	---	---
c. Were the results of the sample evaluated as to their effect on the nature, timing, and extent of planned substantive procedures?	---	---	---
d. In evaluating the sample, was appropriate consideration given to items for which the planned tests of controls or appropriate alternative procedure could not be performed, for example, because the documentation was missing?	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
e. Was the documentation of the foregoing considerations in accordance with firm policy?	—	—	—
9. If statistical or nonstatistical sampling was used for substantive tests and tests of applicable laws and regulations, if appropriate (SAS No. 39, paragraphs 15 through 30; AU section 350.15-.30):			
a. In planning the sampling application, was appropriate consideration given to the specific audit objective, tolerable error, acceptable level of risk of incorrect acceptance, and characteristics of the population?	—	—	—
b. Was the sample selected in such a way that it could be expected to be representative of the population?	—	—	—
c. Were the error results of the sample projected to the items from which the sample was selected?	—	—	—
d. In evaluating the sample, was appropriate consideration given to items for which the planned substantive tests or appropriate alternate procedures could not be performed?	—	—	—
e. In the evaluation of whether the financial statements may be materially misstated, was appropriate consideration given, in the aggregate, to projected error results from all audit sampling applications and to all known errors from nonsampling applications?	—	—	—
f. Was the documentation of the foregoing considerations in accordance with firm policy?	—	—	—
10. Were the guidelines of SAS No. 56, Analytical Procedures (AU section 329), utilized in the performance of analytical procedures for:			
a. The planning of the audit?	—	—	—
b. Use as a substantive test?	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
c. Overall reviews of the audit?	—	—	—
11. Did the firm obtain a timely and appropriate letter of representation from management? (SAS No. 19; AU section 333)	—	—	—
12. Did the firm obtain timely and appropriate responses from the entity's attorney concerning litigation, claims, and assessments? (SAS No. 12; AU section 337)	—	—	—
13. Have all questions, exceptions, or notes, if any, posed during the audit been resolved, including consideration of views obtained from responsible officials of the entity concerning the auditor's findings, conclusions, and recommendations?	—	—	—
14. Does it appear that appropriate consideration was given to all passed adjustments and to the risk that the current period's financial statements are materially misstated when prior-period likely errors are considered with likely errors arising in the current period?(SAS No. 47, AU section 312)	—	—	—
15. If applicable, were adequate tests of controls with applicable laws and regulations made?	—	—	—
16. Were all reportable conditions in the internal control structure, all identified instances of noncompliance with applicable laws and regulations, and all illegal acts:			
a. Adequately evaluated and documented?	—	—	—
b. Appropriately reported in accordance with applicable standards? (SAS No. 60, AU section 325; GAO's Standards for Audit, pp. 28-29, and OMB Circular A-128, paragraph 13)	—	—	—

II. Compliance With the Requirements of the Single Audit Act of 1984

A. .020 The Single Audit Act

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
1. If required or deemed necessary, is there any indication that the firm discussed and agreed on the scope of the engagement with the auditee?	___	___	___
2. Did the firm, by reviewing contract files and receipts and disbursements, obtain reasonable assurance that the auditee appropriately identified all federal financial assistance and included that assistance within the audit scope?	___	___	___
3. If required, does the schedule of federal financial assistance program expenditures present the following:			
a. Identification of each program as indicated in the Catalog of Federal Domestic Assistance (CFDA)?	___	___	___
b. Other federal assistance from programs not included in the CFDA?	___	___	___
c. Total expenditures for each federal financial assistance program by grantor, department, or agency?	___	___	___
d. Total federal financial assistance?	___	___	___
e. Other information, either required by federal program managers or otherwise deemed appropriate?	___	___	___
4. Was consideration given to the accounting and auditing guidance issued by the Office of Management and Budget, including Circulars A-128 (Audits of State and Local Governments), A-87 (Cost Principles Applicable to Grants and Contracts), and A-102 (Uniform Requirements for Assistance to state and Local Governments)?	___	___	___
5. Did the firm obtain an understanding of the internal control structure policies and procedures, as it relates to:			
a. Administering major federal financial assistance programs, comparable to that which the auditor would perform if he assessed control risk at below the maximum level? (SAS No. 55; AU section 319)	___	___	___

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
b. Administering non-major programs to the same extent as in question 5a above, so that over at least 50% of total federal assistance program expenditures are considered?	_____	_____	_____
c. Other non-major federal financial assistance programs? (SOP 90-9)	_____	_____	_____
6. For those programs where the control risk is assessed at the maximum level, is the firm's understanding of the internal control structure as well as the conclusion of the control risk documented? (SAS No. 55; AU section 319)	_____	_____	_____
7. For categories of controls for which the control risk is below the maximum level:			
a. Do the working papers document the firm's understanding of the internal control structure?	_____	_____	_____
b. Were tests of controls performed for internal control structure?	_____	_____	_____
c. Was the nature and extent of testing sufficient to enable the firm to determine if the control procedures were being applied as described?	_____	_____	_____
d. Did the auditor examine the recipient's control structure for ensuring subrecipients' compliance and obtaining and acting on subrecipients' audit reports?	_____	_____	_____
e. Do the working papers adequately document the work performed and the conclusions reached? (GAO, p. 26; SAS No. 41, paragraph 5)	_____	_____	_____
8. Were all reportable conditions in the internal control structure disclosed in the auditor's reports?	_____	_____	_____
9. In determining whether the entity has complied with applicable laws and regulations that may have a material effect on each major federal financial assistance program, did the auditor:			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
a. Consult appropriate sources, such as the Compliance Supplement for Single Audits of State and Local Governments, statutes, regulations, and agreements covering individual programs, in order to identify the compliance requirements that apply to each major program and to determine which requirements to test?	---	---	---
b. Select a representative number of charges from each major program?	---	---	---
c. Perform tests to determine whether:			
(1) The amounts reported as expenditures were allowable under federal regulations and contracts?	---	---	---
(2) Only eligible persons or organizations received services or benefits?	---	---	---
(3) Matching requirements were met?	---	---	---
(4) Federal financial reports and claims for advances and reimbursements were supported by the records supporting the financial statements?	---	---	---
(5) The entity complied with each of the general requirements contained in the compliance supplement concerning:			
(a) Political activity?	---	---	---
(b) Civil rights?	---	---	---
(c) Davis-Bacon Act?	---	---	---
(d) Cash management?	---	---	---
(e) Relocation of assistance and real property acquisition?	---	---	---
(f) Federal financial reports?	---	---	---
(g) Allowable costs/cost principles?	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(h) Drug-free workplace?	___	___	___
(i) Administrative requirements?	___	___	___
d. Consider projected error results from all audit sampling applications and all known errors from non-sampling applications?	___	___	___
e. Consider whether his tests of compliance with the program's requirements appear adequate to support his report(s) on compliance? (SAS No. 68; AU Sec. 801)	___	___	___
10. Where transactions related to non-major federal financial assistance programs have been selected during other audit procedures, have they been appropriately tested for compliance with applicable laws and regulations in connection with the audit of financial statements and evaluations of internal control?	___	___	___
11. If warranted, did the firm communicate with the cognizant agency to avoid or minimize any disagreements or problems?	___	___	___
12. Did the firm submit the report(s) to the organization audited and to those requiring or arranging for the audit within the required time?	___	___	___
13. Has the firm established policies or procedures for complying with the additional requirements concerning:			
a. Retaining working papers and reports for a minimum of three years from the date of the audit report, unless the auditor is notified in writing by the cognizant agency to extend the retention period?	___	___	___
b. Making the working papers available upon request to the cognizant agency or its designee or the GAO at the completion of the audit?	___	___	___

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
14. Did the firm consider prior audits of federal financial assistance programs that disclosed questionable or disallowed costs, or instances of noncompliance?	—	—	—
 III. Working Paper Areas			
A. .030 Cash			
1. Was due consideration given to each transaction shortly before and shortly after the balance sheet date to determine that transactions were recorded in the proper period?	—	—	—
2. Were bank accounts confirmed and were reconciling items existing at the balance sheet date cleared by reference to subsequent statements?	—	—	—
3. Do the working papers indicate that the following were considered:			
a. Restrictions on cash balances?	—	—	—
b. Confirmation of bank credit arrangements such as compensating balances?	—	—	—
c. Review of confirmation responses for indication of related party transactions?	—	—	—
d. Confirmation of liabilities and contingent liabilities to banks?	—	—	—
e. Approval of interfund cash transactions?	—	—	—
f. Verification of collateral required of depository institutions for public funds?	—	—	—
g. Compliance with the laws and regulations governing the deposit of public funds?	—	—	—
h. Determination that all cash accounts have been identified and appropriately recorded?	—	—	—



	<u>YES</u>	<u>NO</u>	<u>N/A</u>
i. Review of repurchase security transactions for consistency with the disclosures on the terms or circumstances of the transactions?	---	---	---
4. Based on the assessed level of risk, do the substantive tests of cash appear adequate?	---	---	---
 B. .040 Receivables			
1. If accounts receivable are not confirmed, document the reason. One of the following is acceptable:			
a. Accounts receivable are immaterial to the financial statements.	---	---	---
b. Use of confirmations would be ineffective.	---	---	---
c. Combined assessed level of inherent and control risk is low, as addressed in internal control section, and the assessed level, in conjunction with other evidence (analytical procedures or other substantive tests) reduced audit risk to an acceptably low level for applicable financial statement assertions.	---	---	---
2. Was a summary properly classifying receivables prepared or obtained (i.e., notes and accounts receivable, tax revenues, interfund transactions, and other related party receivables, etc.)?	---	---	---
3. Were accounts receivable circularized and appropriate follow-up steps taken, including second requests and alternate procedures?	---	---	---
4. If confirmation work was performed prior to year end, is there evidence that there was an adequate review of transactions from the confirmation date to the balance sheet date?	---	---	---
5. If a significant number and amounts receivable were not circularized, is there evidence that other auditing procedures were performed?	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
6. Were significant notes receivable confirmed as of the balance sheet date?	___	___	___
7. Were the results of confirmation procedures summarized in the working papers?	___	___	___
8. Was collateral (if any) for receivables examined with respect to existence, ownership and value?	___	___	___
9. Were procedures performed to provide evidence that taxes receivable and the related revenues have been recorded in the correct period in accordance with GASB Cod. Sec. P70?	___	___	___
10. Were adequate tests of discounts and allowances made?	___	___	___
11. Was the reasonableness of allowances for doubtful accounts covered in the working papers and collectibility for receivables, including interfund receivables, adequately considered?	___	___	___
12. Is there evidence in the working papers that inquiry was made and consideration given to whether receivables are pledged, assigned or otherwise encumbered?	___	___	___
13. Was receivable work coordinated with test revenues, including cut-off tests?	___	___	___
14. Were procedures performed to obtain evidence the carrying value of notes receivable reasonably represents the present value of the consideration exchanged and an appropriate interest rate?	___	___	___
15. Based on the assessed level of control risk, do the substantive tests of receivables appear adequate?	___	___	___
 C. .050 Inventories			
1. Was an inventory summary showing cost basis prepared or obtained?	___	___	___
2. Do the working papers indicate that a lower of cost or market test (including consideration of obsolete or slow-moving inventory) was performed?	___	___	___

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
3. Do the working papers indicate that there were adequate tests of:			
a. Physical observation, if material?	—	—	—
b. The clerical accuracy of the compilation of the inventory?	—	—	—
c. Costing methods and substantiation of costs used in pricing all inventory elements?	—	—	—
4. Based on assessed level of control risk do the substantive tests of inventory appear adequate?	—	—	—
D. .060 Investments			
1. Was a summary schedule prepared (or obtained) and details examined with respect to description, purchase price and date, changes during the period, income, market value, etc., of investments?	—	—	—
2. Were all securities either examined or confirmed?	—	—	—
3. Were gains and losses on disposition of securities properly computed?	—	—	—
4. Do the working papers reflect consideration of the appropriateness of carrying values of marketable securities and their classification?	—	—	—
5. Was investigation of carrying value and possible cost impairment of long-term investments made?	—	—	—
6. Do the working papers reflect to description, purchase price and date, changes during the period, income, market value, etc., of investments?	—	—	—
7. For joint venture investments (accounted for on the equity or other method), were financial statements and other information reviewed to support the amounts presented and the related footnote disclosures?	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
8. Do the working papers indicate that adequate evidential matter had been accumulated for long-term investments?	___	___	___
9. Was a review made to determine whether the investments are the types authorized by law or comply with the applicable statutes and investment policy?	___	___	___
10. Were income, gains and losses from investments examined for proper allocation to the individual funds?	___	___	___
11. For repurchase and reverse repurchase agreements, were appropriate audit procedures performed (e.g., confirmation, inspection of collateral, etc.)?	___	___	___
12. Based on the assessed level of control risk, do the substantive tests of investments appear adequate?	___	___	___
<b>E. .070 Prepaid Expenses, Intangible Assets, Deferred Charges, Etc.</b>			
1. Were adequate tests made and/or confirmations received for all material:			
a. Prepaid expenses?	___	___	___
b. Intangible assets?	___	___	___
c. Deferred charges?	___	___	___
d. Other?	___	___	___
2. Is there adequate support for the deferral and amortization (or lack thereof) of these types of assets?	___	___	___
3. Based on the assessed level of control risk, do the substantive tests of prepaid expenses, intangible assets, deferred charges, etc., appear adequate?	___	___	___
<b>F. .080 Fixed Assets</b>			
1. Was a summary schedule by source prepared (or obtained) to show beginning balances, changes during the period, and ending balances for:			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
a. Property, plant, and equipment?	—	—	—
b. Accumulated depreciation (where applicable)?	—	—	—
2. Do tests appear adequate with respect to:			
a. Additions by the examination of supporting documents and/or physical inspection?	—	—	—
b. Retirements, etc. (including examination of miscellaneous income, scrap sales, etc.)?	—	—	—
c. The adequacy of current and accumulated provisions for depreciation (where applicable)?	—	—	—
d. Status of idle facilities?	—	—	—
3. Do working papers indicate that the auditor considered the possibility that property was subject to liens?	—	—	—
4. Was a review made to determine that capital expenditures are classified in the proper fund accounts and made in accordance with budgetary requirements?	—	—	—
5. Based on the assessed level of control risk, do the substantive tests of property, plant, and equipment appear adequate?	—	—	—
 G. .090 Liabilities			
1. Were accounts and warrants payable adequately tested for propriety?	—	—	—
2. Were liabilities properly classified as current or included in the general long-term debt account group?	—	—	—
3. Was an adequate test of subsequent transactions (i.e., cash disbursements, voucher register) made to determine if any unrecorded liabilities existed that were material individually or in the aggregate in relation to the financial statements?	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
4. Was consideration given to expenditures and expenses that might require accrual (e.g., pensions, compensated absences-- See GASB Cod. Sec. 1600), and to whether accrued expenses were reasonably stated?	---	---	---
5. Were procedures performed to determine whether deferred compensation plans are appropriately disclosed or reported? (GASB Statement No. 2)	---	---	---
6. Do the working papers include evidence as to compliance with any loan restrictions?	---	---	---
7. Were confirmations for significant notes and bonds payable, together with verification of interest rates, repayment period, etc., received?	---	---	---
8. Were audit procedures performed to obtain evidence that the carrying value of debt obligations are recorded at face value?	---	---	---
9. Is there evidence that loan restrictions and covenants to debt obligations are being complied with?	---	---	---
10. Was an examination made to determine that:			
a. New debt issues are properly issued as required by the state constitution or state/local statute and are recorded in the correct fund and/or account group?	---	---	---
b. Debt restrictions, guarantees, and other debt commitments are properly disclosed?	---	---	---
11. Do the tests of interfund borrowings appear adequate with respect to:			
a. Legal restrictions, if any, on such borrowings?	---	---	---
b. Authorization?	---	---	---
c. Classification?	---	---	---
d. Appropriateness of interest accruals and payments?	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
12. Based on the assessed level of control risk do the substantive tests of liabilities appear adequate?	---	---	---
H. .100 Deferred Revenue			
1. Do the working papers reflect consideration of whether the basis of deferring revenue is reasonable and consistent with restrictions imposed by the grantor or by the special assessment?	---	---	---
2. Was consideration given to matching requirements, if any?	---	---	---
3. Based on the assessed level of control risk, do the substantive tests of deferred revenue appear adequate?	---	---	---
I. .110 Commitments and Contingencies			
1. Do the working papers include indication of the following:			
a. Inspection of minutes of meetings of the governmental body and key committees thereof, provisions of the governmental unit's charter, and applicable statutes and changes therein?	---	---	---
b. Inspection of contracts, loan agreements, leases, correspondence from taxing and other governmental agencies, and similar documents?	---	---	---
c. Accumulation and analysis of confirmation responses from banks and lawyers?	---	---	---
d. Inquiry and discussion with management (including management's written representations concerning liabilities and litigation, claims and assessments)?	---	---	---
e. Inspection of long-term contracts with non-governmental entities, such as construction contractors?	---	---	---
2. Is there indication that procedures were performed to uncover the need for recording or disclosing events subsequent to the date of the financial statements?(SAS			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
No. 1, section 560.10-.12; Au section 560.10-.12)	---	---	---
3. Have all material contingencies been properly considered, documented, and reported (SFAS No. 5; AC C59 GASB Cod. Sec. C50)?	---	---	---
4. Has adequate consideration been given to loss contingencies in accordance with SFAS No. 5 (AC C59)?	---	---	---
5. Was it determined that the entity will continue as a going concern for a reasonable period of time, not to exceed one year?	---	---	---
6. Based on the assessed level of control risk, do the substantive tests of commitments and contingencies appear adequate?	---	---	---
J. .120 Fund Equity			
1. Where appropriate, were authorization of changes in reserves and designated balances examined?	---	---	---
2. Do the working papers indicate that there were appropriate inquiries, where appropriate, as to proper classification, description, and disclosures of components of the fund equity?	---	---	---
3. Do the working papers indicate that fund transfers were properly approved and recorded?	---	---	---
4. Based on the assessed level of control risk, do the substantive tests of fund equity appear adequate?	---	---	---
K. .130 Revenues and Expenditures/Expenses			
1. Were revenues and expenditures and/or expenses for the period compared with those of the preceding period and reviewed for reasonableness and were significant fluctuations explained?	---	---	---
2. Was adequate consideration given to the entity's revenue recognition policy?	---	---	---



	<u>YES</u>	<u>NO</u>	<u>N/A</u>
3. Do the working papers indicate that revenues and interfund transactions have been recognized in the accounting period in which they became available and measurable under the applicable basis of accounting?	---	---	---
4. Do the working papers indicate that the auditor considered the effect of program income on federal grants and any related activities?	---	---	---
5. Has it been determined that:			
a. Expenditures are in accordance with the approved budget as to amounts and purpose?	---	---	---
b. Encumbrances are properly identified, supported, and recorded?	---	---	---
6. Were tests of payrolls, including account distribution, made?	---	---	---
7. With regard to pension plans, do the tests made of the expenditures and liabilities appear adequate?	---	---	---
8. If the entity is reimbursed by a third party for costs incurred in connection with providing services to others:			
a. Were pertinent sections of significant third party contracts reviewed to determine the basis for reimbursement?	---	---	---
b. Were cost reimbursement reports and the underlying support reviewed?	---	---	---
c. Were appropriate allocations made of indirect costs among the entity's programs?	---	---	---
d. Was the effect of audits, either required or performed by third party grantors, considered?	---	---	---
9. If grants are awarded to other organizations, did the auditor review:			
a. The classification of the grants?	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
b. The effects of the grantees' compliance or noncompliance with performance requirements?	—	—	—
10. Based upon the assessed level of control risk, did the substantive tests (review, analysis, and testing) of revenues and expenditures/expense appear adequate?	—	—	—
L. .140 Other			
1. Have leases been examined to determine that capital, sales, and direct financing leases have been properly accounted for? (GASB Cod. Sec. L20)	—	—	—
2. Were procedures applied to supplementary information in accordance with SAS No. 29 (AU section 551)?	—	—	—
3. If the work of a specialist was used, did the auditor apply the guidance in SAS No. 11 (AU section 336)?	—	—	—
4. Were specific procedures applied for determining the existence of related parties and examining identified related party transactions? (SAS No. 45; AU section 334)	—	—	—

**AAM Section 10,700**

**Accountants' Reports on Basic or General Purpose Financial Statements for State and Local Governmental Units**

**.01 Unqualified Opinion on General Purpose or Component Unit Financial Statements Only**

**Independent Auditor's Report**

Addressee:

We have audited the accompanying general purpose\* financial statements of City of Example, Any State, as of December 31, 19XX, and for the year then ended. These general purpose\* financial statements are the responsibility of City of Example, Any State management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards.\*\* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis,

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\* If the financial statements are for a component unit, the term "general purpose financial statements" should not be used. In the case of a component unit other than the oversight unit, the term "component unit financial statements" or just "financial statements" should be used. For the component unit financial statements of an oversight unit, see AAM section 10,700.04.

\*\* If an auditor is performing an audit for a state or local governmental unit which is not under the Single Audit Act, a reference to GAS is required by the "Yellow Book" on page 5-1 paragraph 3. If the auditor is performing an audit for a state or local governmental unit which is under the Single Audit Act and a separate report is not being issued in connection with the Schedule for Federal Financial Assistance, a reference to GAS is required. However, if the audit is under the Single Audit Act and a separate report is being prepared for the Schedule of Federal Financial Assistance, reference to GAS is not required in the audit report for the general purpose or component unit financial statements because the report on the Schedule of Federal Financial Assistance will refer to GAS.

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 general purpose\* financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose\* financial statements referred to above present fairly, in all material respects, the financial position of City of Example, Any State as of December 31, 19XX, and the results of its operations and cash flows of its proprietary and similar trust fund types for the year then ended in conformity with generally accepted accounting principles.

[Signature]

[Date]

[Source: SOP 89-6, *Auditors' Reports in Audits of State and Local Governmental Units.*]

**.02 Unqualified Opinion on General Purpose or Component Unit Financial Statements Submitted Together With Combining and Individual Fund and Account Group Financial Statements and Supporting Schedules as Supplementary Data<sup>1</sup>**

**Independent Auditor's Report**

Addressee:

We have audited the accompanying general purpose\* financial statements of City of Example, Any State as of December 31, 19XX, and for the year then ended as listed in the table of contents. These general purpose\* financial statements are the responsibility of City of Example, Any State management. Our responsibility is to express an opinion on these general purpose\* financial statements based on our audit.

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

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<sup>1</sup> If a schedule of federal financial assistance is reported on as supplementary data, *Government Auditing Standards*, issued by the Comptroller General of the United States, should be referenced in the second paragraph. See AAM section 10,700.17 for guidance on issuing a separate report on a schedule of federal financial assistance.

\* If the financial statements are for a component unit, the term "general purpose financial statements" should not be used. In the case of a component unit other than the oversight unit, the term "component unit financial statements" or just "financial statements" should be used. For the component unit financial statements of an oversight unit, the principles of AAM section 10,700.04 should be combined with those of this section.

In our opinion, the general purpose\* financial statements referred to above present fairly, in all material respects, the cash flows of City of Example, Any State as of December 31, 19XX, and the results of its operations and changes in financial position of its proprietary, and similar fund types for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the general purpose\* financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose\* financial statements of the City of Example, Any State. Such information has been subjected to the auditing procedures applied in the audit of the general purpose\* financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose\* financial statements taken as a whole.

[Signature]

[Date]

[Source: SOP 89-6, *Auditors' Reports in Audits of State and Local Governmental Units.*]

**.03 Unqualified Opinion on General Purpose or Component Unit Financial Statements and Combining and Individual Fund and Account Group Financial Statements Presented Together With Supporting Schedules Reported on as Supplementary Data**

**Independent Auditor's Report**

Addressee:

We have audited the accompanying general purpose financial statements and the combining and individual fund and account group financial statements of City of Example, Any State, as of December 31, 19XX, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of City of Example, Any State management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the general purpose\* financial statements referred to above present fairly, in all material respects, the financial position of City of Example, Any State as of December 31, 19XX, and the results of its operations and cash flows of its proprietary, and similar trust fund types for the year then ended, in conformity with generally accepted accounting principles. Also, in our opinion, the combining and individual fund and account group financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds and account groups of the City of Example, Any State, as of December 31, 19XX, and the results of operations of such funds and its cash flows of the individual proprietary and similar trust funds for the year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the general purpose\* financial statements taken as a whole and on the combining and individual fund and account group financial statements. The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a

required part of the financial statements of the City of Example, Any State. Such information has been subjected to the auditing procedures applied in the audit of the general purpose,\* combining and individual fund and account group financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements of each of the respective individual funds and account groups, taken as a whole.

[Signature]

[Date]

[Source: SOP 89-6, *Auditors' Reports in Audits of State and Local Governmental Units.*]

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\* If the financial statements are for a component unit, the term "general purpose financial statements" should not be used. In the case of a component unit other than the oversight unit, the term "component unit financial statements" or just "financial statement" should be used. For the component unit financial statements of an oversight unit, the principles of AAM section 10,700.04 should be combined with those of this section.



**.04 Unqualified Opinion on Component Unit Financial Statements of an Oversight Unit That Omit the Financial Statements of All Other Component Units**

**Independent Auditor's Report**

Addressee:

We have audited the accompanying component unit financial statements of City of Example, Any State, as of December 31, 19XX, and for the year then ended. These component unit financial statements are the responsibility of City of Example, Any State oversight unit management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

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

The financial statements referred to above include only the financial activities of the oversight unit. Financial activities of other component units that form the reporting entity are not included.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of City of Example, Any State as of December 31, 19XX, and the results of its operations and cash flows of its proprietary and similar trust fund types for the year then ended in conformity with generally accepted accounting principles.

[Signature]

[Date]

[Source: SOP 89-6, *Auditors' Reports in Audits of State and Local Governmental Units.*]

**.05 Qualified Opinion on General Purpose Financial Statements That Omit One or More, But Not All, Component Units of the Reporting Entity**

**Independent Auditor's Report**

Addressee:

We have audited the accompanying general purpose financial statements of City of Example, Any State as of December 31, 19XX, and for the year then ended. These general purpose\* financial statements are the responsibility of City of Example, Any State management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The general purpose\* financial statements referred to above do not include financial activities of the [*identify the component unit omitted*], which should be included in order to conform with generally accepted accounting principles. If the omitted component unit had been included,\*\* the assets and revenues of the [*identify fund type(s), e.g., special*

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Note: If the omission was sufficiently material, the auditor should express an adverse opinion on the general purpose financial statements. In such case, a separate explanatory paragraph should state all the substantive reasons for the adverse opinion and the principal effects of those matters. See AAM section 10,700.06 for guidance.

\* If the financial statements are for a component unit, the term "general purpose financial statements" should not be used. In the case of a component unit other than the oversight unit, the term "component unit financial statements" or just "financial statement" should be used. For the component unit financial statements of an oversight unit, the principles of AAM section 10,700.04 should be combined with those of this section.

revenue fund type] would have increased by \$XXX,XXX and \$XXX,XXX, respectively, there would have been an excess of expenditures over revenues in that fund type for the year of \$XXX,XXX, and the [identify fund type(s)] fund balance would have been a deficit of \$XXX,XXX.

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the general purpose\* financial statements referred to above present fairly, in all material respects, the financial position of City of Example, Any State as of December 31, 19XX, and the results of its operations and cash flows of its proprietary and similar trust fund types for the year then ended in conformity with generally accepted accounting principles.

[Signature]

[Date]

[Source: SOP 89-6, *Auditors' Reports in Audits of State and Local Governmental Units.*]

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\*\* If the amounts applicable to the omitted component have not been audited, insert the phrase "based on unaudited information."

**.06 Adverse Opinion on General Purpose Financial Statements That Omit One or More, But Not All, Component Units of the Reporting Entity**

**Independent Auditor's Report**

Addressee:

We have audited the accompanying general purpose\* financial statements of City of Example, Any State as of December 31, 19XX, and for the year then ended. These general purpose\* financial statements are the responsibility of City of Example, Any State management. Our responsibility is to express an opinion on these general purpose\* financial statements based on our audit.

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

The general purpose\* financial statements referred to above do not include financial activities of the [*identify the component unit omitted*], which should be included in order to conform with generally accepted accounting principles.

Because of the departure from generally accepted accounting principles identified above, as of December 31, 19XX, the assets and revenues of the [*identify fund type(s), e.g., special revenue fund type*] would have increased by \$XXX,XXX and \$XXX,XXX, respectively, there would have been an excess of expenditures over revenues in that fund type for the year of \$XXX,XXX, and the [*identify fund type(s)*] fund balance would have been a deficit of \$XXX,XXX.

In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the general purpose\* financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial position of City of Example, Any State as of December 31, 19XX, or the results of operations or cash flows of its proprietary and similar trust fund types for the year then ended.

[Signature]

[Date]

[Source: SOP 89-6, *Auditors' Reports in Audits of State and Local Governmental Units.*]

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\* If the financial statements are for a component unit, the term "general purpose financial statements" should not be used. In the case of a component unit other than the oversight unit, the term "component unit financial statements" or just "financial statements" should be used. For the component unit financial statements of an oversight unit, the principles of AAM section 10,700.04 should be combined with those of this section.

**.07 Qualified Opinion on General Purpose or Component Unit  
Financial Statements That Omit a Fund Type or Account Group**

**Independent Auditor's Report**

Addressee:

We have audited the accompanying general purpose\* financial statements of City of Example, Any State as of December 31, 19XX, and for the year then ended. These general purpose\* financial statements are the responsibility of City of Example, Any State management. Our responsibility is to express an opinion on these general purpose\* financial statements based on our audit.

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

The general purpose\* financial statements referred to above do not include the [*identify the fund type (account group) omitted*], which should be included to conform with generally accepted accounting principles. The omitted fund type\*\* has

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Note: If the omission was sufficiently material, the auditor should express an adverse opinion on the financial statements. In such case, a separate explanatory paragraph should state all the substantive reasons for the adverse opinion and the principal effects of those matters. See AAM section 10,700.06 for guidance.

\* If the financial statements are for a component unit, the term "general purpose financial statements" should not be used. In the case of a component unit other than the oversight unit, the term "component unit financial statements" or just "financial statements" should be used. For the component unit financial statements of an oversight unit, the principles of AAM section 10,700.04 should be combined with this section.

assets, liabilities, revenues, and expenditures of \$XXX,XXX, \$XXX,XXX, \$XXX,XXX, and \$XXX,XXX, respectively. (The amount that should be recorded in the general fixed assets account group is not known.)

In our opinion, except for the effect on the general purpose\* financial statements of the omission described in the preceding paragraph, the general purpose\* financial statements referred to above present fairly, in all material respects, the financial position of City of Example, Any State as of December 31, 19XX, and the results of its operations and cash flows of its proprietary and similar trust fund types for the year then ended, in conformity with generally accepted accounting principles.

[Signature]

[Date]

[Source: SOP 89-6, *Auditors' Reports in Audits of State and Local Governmental Units.*]

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\*\* If the amounts applicable to the omitted fund type have not been audited, insert the phrase "based on unaudited information."

**.08 Qualified Opinion on General Purpose or Component Unit  
Financial Statements That Omit a Fund From a Fund Type**

**Independent Auditor's Report**

Addressee:

We have audited the accompanying general purpose\* financial statements of City of Example, Any State as of December 31, 19XX, and for the year then ended. These general purpose\* financial statements are the responsibility of City of Example, Any State management. Our responsibility is to express an opinion on these general purpose\* financial statements based on our audit.

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

The general purpose\* financial statements referred to above do not include the [*identify the omitted fund*], which should be included to conform with generally accepted accounting principles. If the omitted fund\*\* had been included, the

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Note: If the omission was sufficiently material, the auditor should express an adverse opinion on the financial statements. In such case, a separate explanatory paragraph should state all the substantive reasons for the adverse opinion and the principal effects of those matters. See AAM section 10,700.06 for guidance.

\* If the financial statements are for a component unit, the term "general purpose financial statements" should not be used. In the case of a component unit other than the oversight unit, the term "component unit financial statements" or just "financial statements" should be used. For the component unit financial statements of an oversight unit, the principles of AAM section 10,700.04 should be combined with this section.



[*identify fund type*] assets, liabilities, revenues, and expenditures would have increased \$XXX,XXX, \$XXX,XXX, \$XXX,XXX, and \$XXX,XXX, respectively.

In our opinion, except for the effect on the general purpose\* financial statements of the omission described in the preceding paragraph, the general purpose\* financial statements referred to above present fairly, in all material respects, the financial position of City of Example, Any State as of December 31, 19XX, and the results of its operations and cash flows of its proprietary and similar trust fund types for the year then ended, in conformity with generally accepted accounting principles.

[*Signature*]

[*Date*]

[*Source: SOP 89-6, Auditors' Reports in Audits of State and Local Governmental Units.*]

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\*\* If the amounts applicable to the omitted fund have not been audited, insert the phrase "based on unaudited information."

**.09 Unqualified Opinion on General Fund Financial Statements  
With an Explanatory Paragraph Calling Attention to the Fact  
That the Financial Statements Do Not Represent the Financial  
Position and Results of Operations of the Governmental Unit**

**Independent Auditor's Report**

Addressee:

We have audited the accompanying financial statements of the general fund of the City of Example, Any State as of December 31, 19XX, and for the year then ended. These financial statements are the responsibility of City of Example, Any State management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

As discussed in Note \_\_, the financial statements present only the general fund and are not intended to present fairly the financial position and results of operations of City of Example, Any State, in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the general fund of City of Example, Any State as of December 31, 19XX, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

[Signature]

[Date]

[Source: SOP 89-6, *Auditors' Reports in Audits of State and Local Governmental Units.*]

**.10 Unqualified Opinion on an Enterprise Fund's Financial Statements With an Explanatory Paragraph Calling Attention to the Fact That the Financial Statements Do Not Represent the Financial Position and Results of Operations of the Governmental Unit**

**Independent Auditor's Report**

Addressee:

We have audited the accompanying financial statements of the [*identify enterprise fund*] of the City of Example, Any State as of December 31, 19XX, and for the year then ended. These financial statements are the responsibility of City of Example, Any State management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

As discussed in Note \_\_, the financial statements present only the [*identify enterprise fund*] and are not intended to present fairly the financial position of City of Example, Any State and the results of its operations and cash flows of its proprietary and similar trust fund types in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the [*identify enterprise fund*] of the City of Example, Any State as of December 31, 19XX, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

[*Signature*]

[*Date*]

[Source: SOP 89-6, *Auditors' Reports in Audits of State and Local Governmental Units.*]

**.11 Unqualified Opinion on General Purpose or Component Unit Financial Statements With an Explanatory Paragraph Added Because of Substantial Doubt About the Ability of a Governmental Unit to Meet Its Debts as They Come Due**

[See criteria in SAS No. 58, *Reports on Audited Financial Statements*, paragraphs 24 through 30 (AU section 508.24 through .30), regarding uncertainties and see discussion of reporting considerations when the auditor has substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time in SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, paragraphs 12 through 16 (AU section 341.12 through .16).]

**Independent Auditor's Report**

Addressee:

We have audited the accompanying general purpose\* financial statements of City of Example, Any State as of December 31, 19XX, for the year then ended. These general purpose\* financial statements are the responsibility of City of Example, Any State management. Our responsibility is to express an opinion on these general purpose\* financial statements based on our audit.

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

In our opinion, the general purpose\* financial statements referred to above present fairly, in all material respects, the financial position of City of Example, Any State as of December 31, 19XX, and the results of its operations and cash flows of its proprietary and similar trust fund types for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note \_\_, [*include description of reason that a question has arisen about the ability of the governmental unit to meet its debts as they come due*]. The general purpose\* financial statements do not include any adjustment relating to the amounts and classification of liabilities that might be necessary if City of Example, Any State is not able to meet its debts as they come due or if such debts are adjusted under the provisions of Chapter 9 of the Federal Bankruptcy Code.

[*Signature*]

[*Date*]

[*Source: SOP 89-6, Auditors' Reports in Audits of State and Local Governmental Units.*]

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\* If the financial statements are for a component unit, the term "general purpose financial statements" should not be used. In the case of a component unit other than the oversight unit, the term "component unit financial statements" or just "financial statements" should be used. For the component unit financial statements of an oversight unit, the principles of AAM section 10,700.04 should be combined with this section.

**.12 Qualified Opinion on General Purpose Financial Statements  
That Include an Unaudited Organization, Function, or Activity**

**Independent Auditor's Report**

Addressee:

We have audited the accompanying general purpose\* financial statements of City of Example, Any State as of December 31, 19XX, and for the year then ended. These general purpose\* financial statements are the responsibility of City of Example, Any State management. Our responsibility is to express an opinion on these general purpose\* financial statements based on our audit.

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

We were unable to obtain audited financial statements supporting the financial activities of the [*identify the organization, function, or activity*] because [*state reasons why audited information could not be obtained*]. Those financial activities are included in the [*identify fund type or account group*] and represent XX percent and XX percent of the assets and revenues, respectively, of that fund type.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to audit the financial statements of [*identify the*

*organization, function, or activity*] the general purpose\* financial statements referred to above present fairly, in all material respects, the financial position of City of Example, Any State as of December 31, 19XX, and the results of its operations and cash flows of its proprietary and similar trust fund types for the year then ended, in conformity with generally accepted accounting principles.

[*Signature*]

[*Date*]

[Source: SOP 89-6, *Auditor's Reports in Audits of State and Local Governmental Units.*]

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\* If the financial statements are for a component unit, the term "general purpose financial statements" should not be used. In the case of a component unit other than the oversight unit, the term "component unit financial statements" or just "financial statements" should be used. For the component unit financial statements of an oversight unit, the principles of AAM section 10,700.04 should be combined with those of this section.

**.13 Unqualified Opinion on General Purpose Financial Statements With Reference to Audit of Part of a Fund Type by Another Auditor**

**Independent Auditor's Report**

Addressee:

We have audited the accompanying general purpose\* financial statements of City of Example, Any State as of December 31, 19XX, and for the year then ended. These general purpose\* financial statements are the responsibility of City of Example, Any State management. Our responsibility is to express an opinion on these general purpose\* financial statements based on our audit. We did not audit the financial statements of [identify component unit or fund], which represent XX percent and XX percent, respectively, of the assets and revenues of the [identify fund type]. Those financial statements were audited by other auditors whose report thereon has been furnished to us and our opinion, insofar as it relates to the amounts included for [identify component unit or fund], is based solely upon the report of the other auditors.

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

In our opinion, based upon our audit and the report of other auditors, the general purpose\* financial statements referred to above present fairly, in all material respects, the finan-

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\* If the financial statements are for a component unit, the term "general purpose financial statements" should not be used. In the case of a component unit other than the oversight unit, the term "component unit financial statements" or just "financial statements" should be used. For the component unit financial statements of an oversight unit, the principles of AAM section 10,700.04 should be combined with those of this section.



cial position of City of Example, Any State as of December 31, 19XX, and the results of its operations and cash flows of its proprietary and similar trust fund types for the year then ended, in conformity with generally accepted accounting principles.

[Signature]

[Date]

[Source: SOP 89-6, *Auditors' Reports in Audits of State and Local Governmental Units.*]

**.14 Unqualified Opinion on General Purpose Financial Statements With Reference to Audit of All of a Fund Type by Another Auditor**

**Independent Auditor's Report**

Addressee:

We have audited the accompanying general purpose\* financial statements of City of Example, Any State as of December 31, 19XX, and for the year then ended. These general purpose\* financial statements are the responsibility of City of Example, Any State management. Our responsibility is to express an opinion on these general purpose\* financial statements based on our audit. We did not audit the financial statements of [identify fund type], which represent the amounts shown as the [identify fund type]. Those financial statements were audited by other auditors whose report thereon has been furnished to us and our opinion, insofar as it relates to the amounts included for [identify fund type], is based solely upon the report of the other auditors.

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

In our opinion, based upon our audit and the report of other auditors, the general purpose\* financial statements referred to above present fairly, in all material respects, the financial position of City of Example, Any State as of December 31, 19XX, and the results of its operations and cash flows of

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\* If the financial statements are for a component unit, the term "general purpose financial statements" should not be used. In the case of a component unit other than the oversight unit, the term "component unit financial statements" or just "financial statements" should be used. For the component unit financial statements of an oversight unit, the principles of AAM section 10,700.04 should be combined with those of this section.

its proprietary and similar trust fund types for the year then ended, in conformity with generally accepted accounting principles.

[*Signature*]

[*Date*]

[*Source: SOP 89-6, Auditors' Reports in Audits of State and Local Governmental Units.*]

**.15 Report on Financial Statements Prepared in Accordance With  
a Comprehensive Basis of Accounting Other Than Generally Ac-  
cepted Accounting Principles**

**Independent Auditor's Report**

Addressee:

We have audited the financial statements of City of Example, Any State as of and for the year ended June 30, 19XX, as listed in the table of contents. These financial statements are the responsibility of City of Example, Any State management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

As discussed in Note \_\_, City of Example, Any State prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of Any State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of City of Example, Any State at June 30, 19XX, and the revenues it received and expenditures it paid for the year then ended on the basis of accounting described in Note \_\_\_\_.

[Signature]

[Date]

[Source: SOP 89-6, *Auditors' Reports in Audits of State and Local Governmental Units.*]

**.16 Unqualified Opinion on a Financial Statement of a Department Constituting Less Than a Fund**

**Independent Auditor's Report**

Addressee:

We have audited the accompanying financial statements of Department of Example, Any State as of June 30, 19XX, and for the year then ended. These financial statements are the responsibility of Department of Example, Any State management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

As discussed in Note \_\_, the financial statements of Department of Example, Any State are intended to present the financial position and results of operations and cash flows of proprietary fund types of only that portion of the funds and account groups of the State that is attributable to the transactions of the Department.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Department of Example, Any State at June 30, 19XX, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

[Signature]

[Date]

[Source: SOP 89-6, *Auditors' Reports in Audits of State and Local Governmental Units.*]

**.17 Report on Supplementary Information—Schedule of Federal Financial Assistance**

**Independent Auditor's Report**

Addressee:

We have audited the general purpose\* financial statements of City of Example, Any State for the year ended June 30, 19XX, and have issued our report thereon dated August 15, 19XX. These general purpose\* financial statements are the responsibility of City of Example, Any State management. Our responsibility is to express an opinion on these general purpose\* financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose\* financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose\* 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 audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the general purpose\* financial statements of City of Example, Any State taken as a whole. The accompanying schedule of federal financial assistance is presented for purposes of additional analysis and is not a required part of the general purpose\* financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose\* financial statements and, in our opinion, is fairly presented in all

material respects in relation to the general purpose\* financial statements taken as a whole.

[Signature]

[Date]

[Source: SOP 89-6, *Auditors' Reports in Audits of State and Local Governmental Units.*]

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\* If the financial statements are for a component unit, the term "general purpose financial statements" should not be used. In the case of a component unit other than the oversight unit, the term "component unit financial statements" or just "financial statements" should be used. For the component unit financial statements of an oversight unit, the principles of AAM section 10,700.04 should be combined with those of this section.

**.18 Compliance Report Based on an Audit of General Purpose or Basic Financial Statements Performed in Accordance With Government Auditing Standards**

**Independent Auditor's Report**

Addressee:

We have audited the general purpose financial statements of City of Example, Any State as of and for the year ended June 30, 19X1, and have issued our report thereon dated August 15, 19X1.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to City of Example, Any State, is the responsibility of City of Example, Any State management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, City of Example, Any State complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the City of Example, Any State had not complied, in all material respects, with those provisions.



This report is intended for the information of the audit committee, management and [*specify legislative or regulatory body*]. However, this report is a matter of public record and its distribution is not limited.\*

[*Signature*]

[*Date*]

[Source: SAS No. 68, paragraph 25 (AU section 801.25)]

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\* If the report is not part of the public record, this sentence should not be included in the report.

**.19 Compliance Report Based on an Audit of General Purpose or Basic Financial Statements Performed in Accordance With *Government Auditing Standards* When, Based on Assessments of Materiality and Audit Risk, the Auditor Concluded it Was Not Necessary to Perform Tests of Compliance With Laws and Regulations**

**Independent Auditor's Report**

Addressee:

We have audited the general purpose financial statements of City of Example, Any State as of and for the year ended June 30, 19X1, and have issued our report thereon dated August 15, 19X1.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to City of Example, Any State, is the responsibility of City of Example, Any State management. As part of our audit, we assessed the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants could cause the financial statements to be materially misstated. We concluded that the risk of such material misstatement was sufficiently low that it was not necessary to perform tests of the City's compliance with such provisions of laws, regulations, contracts, and grants.

However, in connection with our audit, nothing came to our attention that caused us to believe that City of Example, Any State had not complied, in all material respects, with the laws, regulations, contracts, and grants referred to in the preceding paragraph.

This report is intended for the information of the audit committee, management and [*specify legislative or regulatory body*]. However, this report is a matter of public record and its distribution is not limited.\*

[Signature]

[Date]

[Source: SAS No. 68, paragraph 26 (AU section 801.26)]

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\* See note in AAM Section 10,700.18

**.20 Compliance Report Based on an Audit of General Purpose or Basic Financial Statements Performed in Accordance With *Government Auditing Standards* When Material Instances of Noncompliance are Identified**

**Independent Auditor's Report**

Addressee:

We have audited the general purpose financial statements of City of Example, Any State as of and for the year ended June 30, 19X1, and have issued our report thereon dated August 15, 19X1.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to City of Example, Any State, is the responsibility of City of Example, Any State management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws and regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions, contained in statutes, regulations, contracts or grants, that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the general purpose financial statements. The results of our tests of compliance disclosed the following material instances of noncompliance, the effects of which have been corrected in the 19X1 general purpose financial statements of City of Example, Any State. [*Include paragraphs describing the material instances of noncompliance noted.*]

We considered these material instances of noncompliance in forming our opinion on whether the 19X1 general purpose financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated August 15, 19X1 on those general purpose financial statements.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, City of Example, Any State complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the City had not complied, in all material respects, with those provisions.

This report is intended for the information of the audit committee, management and [*specify legislative or regulatory body*]. However, this report is a matter of public record and its distribution is not limited.\*

[*Signature*]

[*Date*]

[Source: SAS No. 68, paragraph 28 (AU section 801.28)]

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\* See note in AAM Section 10,700.18

**.21 Single Audit Opinion on Compliance With Specific Requirements Applicable to Major Federal Financial Assistance Programs**

**Independent Auditor's Report**

Addressee:

We have audited the general purpose financial statements of City of Example, Any State as of and for the year ended June 30, 19X1, and have issued our report thereon dated August 15, 19X1.

We have also audited City of Example, Any State's compliance with the requirements governing [*list specific requirements tested*] that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance, for the year ended June 30, 19X1. The management of City of Example, Any State is responsible for City of Example, Any State's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about City of Example, Any State compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of findings and questioned costs. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, City of Example, Any State complied, in all material respects, with the requirements governing [*list requirements tested*] that are applicable to each of its major federal financial assistance programs for the year ended June 30, 19X1.

This report is intended for the information of the audit committee, management, and [*specify legislative or regulatory body*]. However, this report is a matter of public record and its distribution is not limited.

[*Signature*]

[*Date*]

[Source: SAS No. 68, paragraph 81 (AU section 801.81)]

**.22 Single Audit Opinion on Compliance With Specific Requirements Applicable to Major Federal Financial Assistance Programs—Qualified Because of a Scope Limitation**

**Independent Auditor's Report**

Addressee:

We have audited the general purpose financial statements of City of Example, Any State as of and for the year ended June 30, 19X1, and have issued our report thereon dated August 15, 19X1.

We have also audited City of Example, Any State's compliance with the requirements governing [*list specific requirements tested*] that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance, for the year ended June 30, 19X1. The management of City of Example, Any State is responsible for City of Example, Any State's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about City of Example, Any State's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain sufficient documentation supporting City of Example, Any State's compliance with the requirements of Major Program ABC governing types of services allowed or unallowed; nor were we able to satisfy ourselves as to City of Example, Any State's compliance with those requirements of Major Program ABC by other auditing procedures.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of findings and questioned costs. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the City of Example, Any State's compliance with the requirements of Major Program ABC governing types of services allowed or unallowed, City of Example, Any State complied, in all material respects, with [*list requirements tested*] that are applicable to each of its major federal financial assistance programs for the year ended June 30, 19X1.

This report is intended for the information of the audit committee, management, and [*specify legislative or regulatory body*]. However, this report is a matter of public record and its distribution is not limited.

[*Signature*]

[*Date*]

[Source: SAS No. 68, paragraph 83 (AU section 801.83)]



**.23 Single Audit Disclaimer of Opinion on Compliance With Specific Requirements Applicable to Major Federal Financial Assistance Programs**

**Independent Auditor's Report**

Addressee:

We have audited the general purpose financial statements of City of Example, Any State as of and for the year ended June 30, 19X1, and have issued our report thereon dated August 15, 19X1.

We were engaged to audit City of Example, Any State's compliance with the requirements governing [*list requirements to have been tested*] that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance for the year ended June 30, 19X1. The management of City of Example, Any State is responsible for City of Example, Any State's compliance with those requirements.

The management of City of Example, Any State has refused to provide us with written representations that generally accepted auditing standards require us to obtain.

Because of the matter described in the preceding paragraph, the scope of our audit work was not sufficient to enable us to express, and we do not express, an opinion on City of Example, Any State's compliance with the requirements governing [*list requirements to have been tested*] that are applicable to each of its major federal financial assistance programs for the year ended June 30, 19X1.

This report is intended for the information of the audit committee, management, and [*specify legislative or regulatory body*]. However, this report is a matter of public record and its distribution is not limited.

[*Signature*]

[*Date*]

[Source: SAS No. 68, paragraph 84 (AU section 801.84)]

**.24 Single Audit Opinion on Compliance With Specific Requirements Applicable to Major Federal Financial Assistance Programs—Qualified Because of Noncompliance**

**Independent Auditor's Report**

Addressee:

We have audited the general purpose financial statements of City of Example, Any State as of and for the year ended June 30, 19X1, and have issued our report thereon dated August 15, 19X1.

We have also audited City of Example, Any State's compliance with the requirements governing [*list specific requirements tested*] that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance, for the year ended June 30, 19X1. The management of City of Example, Any State is responsible for City of Example, Any State's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about City of Example, Any State's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures for Major Program ABC disclosed that City of Example, Any State did not comply with the requirement that City of Example, Any State match the funds received from Major Program ABC. In our opinion, City of Example, Any State's matching of funds received from Major Program ABC is necessary for City of Example, Any State to comply with the requirements applicable to Major Program ABC.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of findings and questioned costs. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, except for those instances of noncompliance with the requirements applicable to Major Program ABC referred to in the fourth paragraph of this report and identified in the accompanying schedule of findings and questioned costs, City of Example, Any State complied, in all material respects, with the requirements governing [*list requirements tested*] that are applicable to each of its major federal financial assistance programs for the year ended June 30, 19X1.

This report is intended for the information of the audit committee, management, and [*specify legislative or regulatory body*]. However, this report is a matter of public record and its distribution is not limited.

[*Signature*]

[*Date*]

[Source: SAS No. 68, paragraph 85 (AU section 801.85)]

**.25 Single Audit Adverse Opinion on Compliance With Specific Requirements Applicable to Major Federal Financial Assistance Programs**

**Independent Auditor's Report**

Addressee:

We have audited the general purpose financial statements of City of Example, Any State as of and for the year ended June 30, 19X1, and have issued our report thereon dated August 15, 19X1.

We have also audited City of Example, Any State's compliance with the requirements governing [*list specific requirements tested*] that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance, for the year ended June 30, 19X1. The management of City of Example, Any State is responsible for City of Example, Any State's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about City of Example, Any State's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

[*Add a paragraph describing reasons for the adverse opinion.*]

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of findings and questioned costs. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, because of the noncompliance referred to in the fourth paragraph, City of Example, Any State did not comply, in all material respects, with the requirements governing [*list requirements tested*] that are applicable to each of its major federal financial assistance programs for the year ended June 30, 19X1.

This report is intended for the information of the audit committee, management, and [*specify legislative or regulatory body*]. However, this report is a matter of public record and its distribution is not limited.

[*Signature*]

[*Date*]

[Source: SAS No. 68, paragraph 86 (AU section 801.86)]

**.26 Single Audit Report on Compliance With the General Requirements Applicable to Federal Financial Assistance Programs**

**Independent Auditor's Report**

Addressee:

We have audited the general purpose financial statements of City of Example, Any State as of and for the year ended June 30, 19X1, and have issued our report thereon dated August 15, 19X1.

We have applied procedures to test City of Example, Any State's compliance with the following requirements applicable to each of its major federal financial assistance programs, which are identified in the schedule of federal financial assistance, for the year ended June 30, 19X1. [*List the general requirements tested.*]

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's *Compliance Supplement for Single Audits of State and Local Governments* [*or describe alternative procedures performed*]. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on City of Example, Any State's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the first paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that City of Example, Any State had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying schedule of findings and questioned costs.

This report is intended for the information of the audit committee, management, and [*specify legislative or regulatory body*]. However, this report is a matter of public record and its distribution is not limited.

[*Signature*]

[*Date*]

[Source: SAS No. 68, paragraph 52 (AU section 801.52)]

**.27 Single Audit Report on Compliance With Requirements  
Applicable to Nonmajor Federal Financial Assistance Program  
Transactions**

**Independent Auditor's Report**

Addressee:

We have audited the general purpose financial statements of City of Example, Any State as of and for the year ended June 30, 19X1, and have issued our report thereon dated August 15, 19X1.

In connection with our audit of the financial statements of City of Example, Any State and with our consideration of City of Example, Any State's control structure used to administer federal financial assistance programs, as required by Office of Management and Budget Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended June 30, 19X1. As required by Circular A-128, we have performed auditing procedures to test compliance with the requirements governing [list requirements tested] that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on City of Example, Any State's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that City of Example, Any State had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying schedule of findings and questioned costs.

This report is intended for the information of the audit committee, management, and [specify legislative or regulatory body]. However, this report is a matter of public record and its distribution is not limited.

[Signature]

[Date]

[Source: SAS No. 68, paragraph 90 (AU section 801.90)]

**.28 Report on the Internal Control Structure in Accordance  
With Government Auditing Standards**

**Independent Auditor's Report**

Addressee:

We have audited the general purpose financial statements of City of Example, Any State as of and for the year ended June 30, 19XX, and have issued our report thereon dated August 15, 19XX.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

In planning and performing our audit of the general purpose financial statements of City of Example, Any State for the year ended June 30, 19XX, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

The management of City of Example, Any State is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation or policies and procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation or policies and procedures may deteriorate.



For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories [*identify internal control structure categories*].

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operations, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.\*

[*Include paragraphs to describe the reportable conditions noted.*]

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of City of Example, Any State in a separate letter dated August 15, 19XX.

This report is intended for the information of the audit committee, management, and [*specify legislative or regulatory body*]. However, this report is a matter of public record and its distribution is not limited.

[*Signature*]

[*Date*]

[Source: SAS No. 68, paragraph 41 (AU section 801.41)]

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\* SAS No. 60, *Communication of Internal Control Structure Related Matters Noted in an Audit*, Paragraph 17 [AU section 325.17], prohibits the auditor from issuing a written report representing that no reportable conditions were noted during an audit. When the auditor notes no reportable conditions during an audit, he may issue a report shown in AAM section 10,700.28 to satisfy the requirements of *Government Auditing Standards*.

**.29 Report on Internal Control Structure When No Reportable Conditions are Noted in Accordance With Government Auditing Standards**

**Independent Auditor's Report**

Addressee:

We have audited the general purpose financial statements of City of Example, Any State as of and for the year ended June 30, 19XX, and have issued our report thereon dated August 15, 19XX.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

In planning and performing our audit of the general purpose financial statements of City of Example, Any State for the year ended June 30, 19XX, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

The management of City of Example, Any State is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation or policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and pro-

cedures in the following categories [*identify internal control structure categories*].

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operations, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of City of Example, Any State in a separate letter dated August 15, 19XX.

This report is intended for the information of the audit committee, management, and [*specify legislative or regulatory body*]. However, this report is a matter of public record and its distribution is not limited.

[*Signature*]

[*Date*]

[Source: SAS No. 68, paragraph 42 (AU section 801.42).]

**.30 Single Audit Report on the Internal Control Structure Used  
in Administering Federal Financial Assistance Programs**

**Independent Auditor's Report**

Addressee:

We have audited the general purpose financial statements of City of Example, Any State, as of and for the year ended June 30, 19XX, and have issued our report thereon dated September 8, 19XX. We have also audited City of Example, Any State's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated September 8, 19XX.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement and about whether City of Example, Any State complied with laws and regulations, non-compliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the year ended June 30, 19XX, we considered the City's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the City's general purpose financial statements and on its compliance with requirements applicable to major programs and not to provide assurance on the internal control structure. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed policies and procedures relevant to our audit of the general purpose financial statements in a separate report dated September 8, 19XX.

The management of City of Example, Any State is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general pur-

pose financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories [*identify internal control structure categories*].\*

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\* Following are examples of different ways in which internal control structure policies and procedures used in administering federal financial assistance programs might be classified. The auditor should modify these examples or use other classifications as appropriate for the particular circumstances on which the auditor is reporting. However, there is no need to present detailed internal control structure policies and procedures, even though test work may be performed at that level.

#### *General Requirements*

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property management
- Federal financial reports
- Allowable costs/cost principles
- Drug-free workplace
- Administration requirements

#### *Specific Requirements*

- Types of services
- Eligibility
- Matching level of effort, or earmarking
- Reporting
- Cost allocation
- Specific requirements, if any
- Monitoring subrecipients

#### *Claims for Advances and Reimbursements*

#### *Amounts Claimed or Used for Matching*

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the year ended June 30, 19XX, City of Example, Any State, expended X percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the City's major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the City's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

*[Include paragraphs to describe the reportable conditions noted.]*

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of City of Example, Any State in a separate letter dated September 8, 19XX.

This report is intended for the information of the audit committee, management, and [*specify legislative or regulatory body*]. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

[*Signature*]

[*Date*]

[*Source: SOP 90-9, The Auditor's Consideration of the Internal Control Structure Used in Administering Federal Financial Assistance Programs Under the Single Audit Act.*]



**.31 Single Audit Report on the Internal Control Structure Used in Administering Federal Financial Assistance Programs (Total Assistance Expended Under Major Federal Financial Assistance Programs is Less Than 50 Percent of Total Federal Assistance Expended by Recipient Organization During the Year Under Audit)**

**Independent Auditor's Report**

Addressee:

We have audited the general purpose financial statements of City of Example, Any State, as of and for the year ended June 30, 19XX, and have issued our report thereon dated September 8, 19XX. We have also audited City of Example, Any State's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated September 8, 19XX.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement and about whether City of Example, Any State complied with laws and regulations, non-compliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the year ended June 30, 19XX, we considered the City's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the City's general purpose financial statements and on its compliance with requirements applicable to major programs and not to provide assurance on the internal control structure. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed policies and procedures relevant to our audit of the general purpose financial statements in a separate report dated September 8, 19XX.

The management of City of Example, Any State is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss

from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories [*identify internal control structure categories*].\*

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\* Following are examples of different ways in which internal control structure policies and procedures used in administering federal financial assistance programs might be classified. The auditor should modify these examples or use other classifications as appropriate for the particular circumstances on which the auditor is reporting. However, there is no need to present detailed internal control structure policies and procedures, even though test work may be performed at that level.

#### *General Requirements*

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property management
- Federal financial reports
- Allowable costs/cost principles
- Drug-free workplace
- Administration requirements

#### *Specific Requirements*

- Types of services
- Eligibility
- Matching level of effort, or earmarking
- Reporting
- Cost allocation
- Specific requirements, if any
- Monitoring subrecipients

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the year ended June 30, 19XX, City of Example, Any State, expended X percent of its total federal financial assistance under major federal financial assistance programs and the following nonmajor federal financial assistance programs: [*list appropriate nonmajor federal financial assistance programs*].

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the City's major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance and the aforementioned nonmajor programs. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the City's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

[*Include paragraphs to describe the reportable conditions noted.*]

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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*(Footnote Continued)*

*Claims for Advances and Reimbursements*

*Amounts Claimed or Used for Matching*

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of City of Example, Any State in a separate letter dated September 8, 19XX.

This report is intended for the information of the audit committee, management, and [*specify legislative or regulatory body*]. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

[*Signature*]

[*Date*]

[*Source: SOP 90-9, The Auditor's Consideration of the Internal Control Structure Used in Administering Federal Financial Assistance Programs Under the Single Audit Act.*]

**.32 Single Audit Report on the Internal Control Structure Used in Administering Federal Financial Assistance Programs (if the Recipient Organization had no Major Federal Financial Assistance Programs During the Year Under Audit)**

**Independent Auditor's Report**

Addressee:

We have audited the general purpose financial statements of City of Example, Any State, as of and for the year ended June 30, 19XX, and have issued our report thereon dated September 8, 19XX.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

In planning and performing our audits for the year ended June 30, 19XX, we considered the City's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the City's general purpose financial statements and not to provide assurance on the internal control structure. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed policies and procedures relevant to our audit of the general purpose financial statements in a separate report dated September 8, 19XX.

The management of City of Example, Any State is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or in-

stances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories [*identify internal control structure categories*].\*

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

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\* Following are examples of different ways in which internal control structure policies and procedures used in administering federal financial assistance programs might be classified. The auditor should modify these examples or use other classifications as appropriate for the particular circumstances on which the auditor is reporting. However, there is no need to present detailed internal control structure policies and procedures, even though test work may be performed at that level.

#### *General Requirements*

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property management
- Federal financial reports
- Allowable costs/cost principles
- Drug-free workplace
- Administration requirements

#### *Specific Requirements*

- Types of services
- Eligibility
- Matching level of effort, or earmarking
- Reporting
- Cost allocation
- Specific requirements, if any
- Monitoring subrecipients

#### *Claims for Advances and Reimbursements*

#### *Amounts Claimed or Used for Matching*

During the year ended June 30, 19XX, City of Example, Any State, had no major financial assistance programs and expended X percent of its total federal financial assistance under nonmajor federal financial assistance programs: [*list appropriate nonmajor federal financial assistance programs*].

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to the aforementioned nonmajor programs. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the City's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

[*Include paragraphs to describe the reportable conditions noted.*]

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.\*\*

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\*\* If a material weakness is found, refer to AAM section 10,700.33.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of City of Example, Any State in a separate letter dated September 8, 19XX.

This report is intended for the information of the audit committee, management, and [*specify legislative or regulatory body*]. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

[*Signature*]

[*Date*]

[*Source: SOP 90-9, The Auditor's Consideration of the Internal Control Structure Used in Administering Federal Financial Assistance Programs Under the Single Audit Act.*]



**.33 Single Audit Report on the Internal Control Structure Used in Administering Federal Financial Assistance Programs, Material Weaknesses Noted**

**Independent Auditor's Report**

Addressee:

We have audited the general purpose financial statements of City of Example, Any State, as of and for the year ended June 30, 19XX, and have issued our report thereon dated September 8, 19XX. We have also audited City of Example, Any State's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated September 8, 19XX.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement and about whether City of Example, Any State complied with laws and regulations, non-compliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the year ended June 30, 19XX, we considered the City's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the City's general purpose financial statements and on its compliance with requirements applicable to major programs and not to provide assurance on the internal control structure. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed policies and procedures relevant to our audit of the general purpose financial statements in a separate report dated September 8, 19XX.

The management of City of Example, Any State is responsible for establishing and maintaining an internal control structure. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and

recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories: [*identify internal control structure categories*].\*

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\* Following are examples of different ways in which internal control structure policies and procedures used in administering federal financial assistance programs might be classified. The auditor should modify these examples or use other classifications as appropriate for the particular circumstances on which the auditor is reporting. However, there is no need to present detailed internal control structure policies and procedures, even though test work may be performed at that level.

#### *General Requirements*

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property management
- Federal financial reports
- Allowable costs/cost principles
- Drug-free workplace
- Administration requirements

#### *Specific Requirements*

- Types of services
- Eligibility
- Matching level of effort, or earmarking
- Reporting
- Cost allocation
- Specific requirements, if any
- Monitoring subrecipients

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the year ended June 30, 19XX, City of Example, Any State, expended X percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the City's major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the City's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

*[Include paragraphs to describe the reportable conditions noted.]*

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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*(Footnote Continued)*

*Claims for Advances and Reimbursements*

*Amounts Claimed or Used for Matching*

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of City of Example, Any State's compliance with requirements applicable to its major federal financial assistance programs for the year ended June 30, 19XX, and this report does not affect our report thereon dated September 8, 19XX.

*[A description of the material weaknesses that have come to the auditor's attention would follow.]*

We also noted other matters involving the internal control structure and its operation that we have reported to the management of City of Example, Any State in a separate letter dated September 8, 19XX.

This report is intended for the information of the audit committee, management, and *[specify legislative or regulatory body]*. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*[Signature]*

*[Date]*

*[Source: SOP 90-9, The Auditor's Consideration of the Internal Control Structure Used in Administering Federal Financial Assistance Programs Under the Single Audit Act.]*

**FSP 3000  
CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS  
FOR STATE AND LOCAL GOVERNMENTAL UNITS**

These checklists and illustrative financial statements are not designed to be applied to the financial statements of colleges, universities, hospitals or nonprofit organizations.

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The checklists and illustrative financial statements included in this section have been developed by the staff of the Technical Information Division of the AICPA as nonauthoritative technical practice aids. At the request of certain AICPA members, these checklists and illustrative financial statements are also being made available for purchase by AICPA members subject to their recognition of the following:

- The checklists and illustrative financial statements are "tools" and in no way represent official positions or pronouncements of the AICPA.
- The checklists and illustrative financial statements have been updated through Codification of Governmental Accounting and Financial Reporting Standards, Third edition (GASB), GASB Statement of the Government Accounting Standards Board No. 15 (Statement No. 11, Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements, has not been included in the checklist due to its requirements becoming effective beginning after June 15, 1994 with early application not permitted, Audits of State and Local Governmental Units (AICPA), SAS No. 69, FASB Statement of Financial Accounting Standards No. 109, FASB Interpretation No. 38, and FASB Technical Bulletin No. 90-1. The checklist and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. To determine the applicability of a pronouncement, its effective date also should be considered.
- The checklists and illustrative financial statements should be used by or under the supervision of persons having adequate technical training and proficiency in the application of generally accepted accounting principles and generally accepted auditing standards. A thorough knowledge of the provisions of "Codification of Governmental Accounting and Financial Reporting Standards, (May, 1990)" and subsequent GASB pronouncements, The U.S. General Accounting Office's Government Auditing Standards (GAO's Standards for Audit, 1988 Revision), and Interpretation of Continuing Education and Training Requirements, the AICPA's Audits of State and Local Governmental Units, (1986) as amended by AICPA Statement of Position 89-6, Auditors' Reports in Audits of State and Local Governmental Units, and Statement of Position 90-9, The Auditor's Consideration of Internal Control Structure Used in Administering Federal Financial Assistance Programs Under the Single Audit Act; and Statement of Position 90-4,

Auditors' Reports Under U.S. Department of Housing and Urban Development's Audit Guide for Mortgagors Having HUD-Insured or Secretary-Held Multifamily Mortgages, is required for proper implementation of the checklists.

- The checklists and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standards should be reviewed if clarification is desired as to whether the disclosures indicated are required or suggested and to what extent each disclosure is relevant to the statements being reviewed.
- In addition to the checklist questionnaires Appendix B was included to provide the additional questions which appear in the President's Council on Integrity & Efficiency (PCIE) Uniform Desk Review Guide for A-128 Audits.
- The checklists and illustrative financial statements are applicable for audits done in accordance with Generally Accepted Auditing Standards (GAAS) and Government Auditing Standards (GAGAS). They may require some modification for audits done in accordance with GAAS only.

Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have any further questions, call the AICPA Technical Hotline (see back cover).

Susan L. Menelaides  
Director  
Technical Information

**FSP 3100**  
**INTRODUCTION**

An increasing number of state and local governments are preparing financial statements in conformity with generally accepted accounting principles (GAAP), and more of those statements are being audited in accordance with generally accepted auditing standards (GAAS). The increased demand for improved financial reporting has resulted in a number of recent significant changes in government financial reporting.

ACCOUNTING STANDARDS

Since its establishment in 1984, the Governmental Accounting Standards Board (GASB) has been the primary source of generally accepted accounting principles for governments. According to SAS No. 69, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles in the Independent Auditor's Report" (AICPA Professional Standards, AU Sec. 411), statements and interpretations issued by the GASB are recognized within category (a) as a source of established accounting principles, "Accounting principles promulgated by a body designed by the AICPA Council to establish such principles, pursuant to rule 203 (ET section 203.01) of the AICPA Code of Professional Conduct." Technical Bulletins issued by the GASB are included within category (b), "Pronouncements of bodies composed of expert accountants that deliberate accounting issues in public forums for the purpose of interpreting or establishing accounting principles or describing existing accounting practices that are generally accepted or pronouncements referred to in category (b) that have been cleared by a body referred to in category (a) but have not been exposed for public comment." The GASB's first pronouncement, Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide, issued in June of 1984, endorsed prior statements and interpretations of the National Council on Government Accounting. This position was codified by GASB on November 1, 1984, with the publication of its Codification of Governmental Accounting and Financial Reporting Standards. GASB pronouncements issued after that date may alter, amend, supplement, revoke, or supersede the guidance in the Codification. The third edition of the codification was issued in May 1990.

AUDITING STANDARDS

In 1972, the Comptroller General of the United States issued Standards for Audit of Governmental Organizations, Programs, Activities and Functions, (Standards for Audit issued by the GAO (U.S. General Accounting Office)). Those standards were revised and reissued in 1981 and 1988 and are now referred to as Government Auditing Standards. These government auditing standards adopt and incorporate all of the existing AICPA's Statements on Auditing Standards for field work and reporting for financial statement and financial related audits. Additionally, all future Statements are automatically included unless the General Accounting Office specifically excludes them by formal announcement. The additional governmental standards, beyond the generally accepted standards of

the AICPA, relate principally to requirements for (a) performing reviews and tests for compliance with federal laws and regulations and including in a compliance report positive assurance on items tested and certain other compliance reporting requirements; (b) submitting a detailed report on an understanding of the entity's internal control structure and the assessment of control risk made as part of a financial statement audit, of a financial related audit, which is not required by the AICPA's generally accepted auditing standards; (c) stating the audit was performed in accordance with generally accepted government auditing standards.

In December 1991, the AICPA issued Statement on Auditing Standards 68, Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance, to be effective for fiscal periods beginning on or after June 15, 1992. This SAS provides the standards for reporting on compliance and an explanation of "compliance" as the term is used in conjunction with (1) generally accepted auditing standards (the AICPA); (2) generally accepted government auditing standards (the GAO); and (3) the Single Audit Act (the Act of 1984 and OMB's Circular A-128, which is the implementing regulation for the Act).

In 1979 the federal Office of Management and Budget (OMB) established a single audit concept for federally assisted programs by the issuance of attachment P to Circular A-102, the administrative guidelines for federal grants and contracts awarded to state and local governments. This concept was incorporated into law by the passage, in October, of the Single Audit Act of 1984. Later, in April 1985, OMB issued Circular A-128, "Audits of State and Local Governments," which superseded attachment P. Circular A-128 was issued as the implementing regulation for the Single Audit Act. The Act, along with Circular A-128, established more detailed auditing and reporting requirements for those governmental units receiving \$100,000 or more of federal assistance in any fiscal year.

#### THE ACCOUNTING SYSTEM

The accounting system of governments, unlike the private sector, is on a fund accounting basis. A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. There are four governmental funds—general, special revenue, capital projects, and debt service funds; two proprietary funds—enterprise and internal service funds; one fiduciary fund—trust and agency fund; and two account groups—general fixed assets and general long-term debt account groups. Only the minimum number of funds consistent with legal and operating requirements should be established. Fixed assets related to specific proprietary funds or trust funds should be accounted for through those funds. All other fixed assets of a governmental unit



should be accounted for through the general fixed asset account group. Long-term liabilities of proprietary funds and trust funds should be accounted through those funds. All other unmatured general long-term liabilities of the governmental unit, including special assessment debt for which the government is obligated in some manner, should be accounted for through the General Long-Term Debt Account Group.

#### BASIS OF ACCOUNTING

Governments use the accrual or modified accrual basis of accounting as appropriate. Governmental funds use the modified accrual basis of accounting to recognize revenues and expenditures. Revenues are recognized in the accounting period in which they become available and measurable. Available means then due, or past due and receivable within the current period, or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which should be recognized when due. Property fund revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable and expenses are recognized in the period incurred, if measurable. Fiduciary funds recognize revenues and expenses or expenditures on the basis consistent with the fund's accounting measurement objective. Non-expendable trust and pension trust funds are accounted for on the accrual basis; expendable trust funds are accounted for on the modified accrual basis. Agency fund assets and liabilities are accounted for on the modified accrual basis. GASB Statement No. 11, Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements, effective for financial statements beginning after June 15, 1994, will change the measurement focus and basis of accounting standards for governmental fund operating statements.

#### BUDGETING

An annual budget should be adopted by every governmental unit. The accounting system should provide the basis for appropriate budgetary control. A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports of each fund.

## FSP 3200

### Disclosure Checklist—General

Note 1: The checklist covers GAAP disclosures applicable to general purpose financial statements (GPFS) and does not address additional disclosures applicable only to a comprehensive annual financial report (CAFR).

.01 Many auditors and accountants find it helpful to use checklists as practice aids to prepare financial statements and reports. Some firms have developed their own checklists for internal use, and may also have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients that report to the SEC. Some state CPA societies have developed checklists as practice aids that may be available to other practitioners as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which may vary.

.02 Checklists typically consist of a number of brief questions or statements that are accompanied by references to a GASB or FASB Statement or Interpretation, an APB Opinion, or an AICPA Accounting Research Bulletin. The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

.03 Checklists usually provide for checking off or initialling each question or point to show that it has been considered. The format used in these sections is a typical one; it provides for "yes," "no," and "not applicable" answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: "not applicable," "not material," "in statements" and "in note" (with provisions for indicating a cross-reference to the specific statement caption or note). Another format may provide for only two answers, "disclosed" and "not applicable." Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

.04 Disclosure checklists are generally accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
- The checklists are not all-inclusive and are not intended to present minimum requirements.

- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

If widespread circulation is expected, the preparers also generally stress the nonauthoritative or unofficial status of the checklists and disclaim responsibility for the way they may be used.

.05 Determine whether any pronouncements issued after December 1, 1991 have a bearing on the financial statements considered.

.06 Verify that all the comments and suggestions made by prior reviewers have been checked for current applicability or whether follow-up for the current year was advised. (This applies to in-house or external reviewers, e.g., GAO, etc.)

**FSP 3400**

**Financial Section—Financial Statements**

.01 This checklist has been developed by the staff of the Technical Information division of the AICPA as a nonauthoritative practice aid. Accordingly, the notice on page iii is incorporated herein by reference.

.02 Explanation of References:

- TPA = Technical Practice Aids
- ARB = Accounting Research Bulletin
- APB = Accounting Principles Board Opinion
- SFAS = Statement of Financial Accounting Standards
- SAS = Statement on Auditing Standards
- FASBI = Financial Accounting Standards Board Interpretation
- TB = Technical Bulletin issued by the staff of the FASB (The FASB staff issues FASB Technical Bulletins to provide guidance concerning the application of FASB Statements or Interpretations, APB Opinions, or Accounting Research Bulletins. FASB Technical Bulletins do not establish new financial accounting and reporting standards or amend existing standards.)
- AC = Reference to section number in FASB Accounting Standards Current Text
- AU = Reference to section number in AICPA Professional Standards (vol. 1) of SAS cited
- OMB = Office of Management and Budget Circular No. A-110
- GPFS = General Purpose Financial Statements
- CAFR = Comprehensive Annual Financial Report
- ASLGU = Audits of State and Local Governmental Units, AICPA, 1986
- GASB = Governmental Accounting Standards Board Statement
- GASBI = Governmental Accounting Standards Board Interpretations

.03 This checklist is organized into the following classifications:

I. General

- A. Titles and Memoranda
- B. Significant Accounting Policies
- C. Accounting Changes
- D. Comparative Financial Statements
- E. Financial Instruments
- F. Nonmonetary Transactions
- G. Contingencies and Commitments
- H. Subsequent Events
- I. Related-Party Transactions
- J. Component Units
- K. Pension Disclosures
- L. Postemployment Benefits Other Than Pension Benefits Disclosures
- M. Deferred Compensation Plans

- N. Special Assessments
  - O. Risk Financing and Related Insurance Issues
- II. Combined Balance Sheet
- A. Titles, References and Content
  - B. Cash and Investments
  - C. Notes and Accounts Receivable
  - D. Inventories
  - E. Investments
  - F. Fixed Assets
  - G. Lessors
  - H. Other Assets and Deferred Charges
  - I. Liabilities
  - J. Lessees
  - K. Other Liabilities and Deferred Credits
  - L. General Long-Term Debt
  - M. Fund Balance
- III. Combined Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Fund Types (and Similar Trust Funds)
- A. General
  - B. Property
  - C. Sales Taxes
  - D. Income Taxes
  - E. Grants, Entitlements or Shared Revenues
  - F. Expenditures
  - G. Related-Party Transactions
  - H. Depreciation
  - I. Transfers
  - J. Operating Leases With Scheduled Rent Increases
- IV. Combined Statement of Revenues, Expenditures and Changes in Fund Balances—Budget and Actual—General and Special Revenue Fund Types
- A. General
- V. Combined Statement of Revenues, Expenses, and Changes in Retained Earnings—All Proprietary Fund Types (and Similar Trust Funds)
- A. General
  - B. Extraordinary Items
  - C. Grants, Entitlements or Shared Revenues
  - D. Interest
  - E. Residual Equity and Operating Transfers
  - F. Related-Party Transactions
  - G. Depreciation
  - H. Nonmonetary Transactions
  - I. Gains on Sales of Securities
  - J. Futures Contracts

- K. Research and Development Costs
  - L. Changes in Fund Balances/Retained Earnings
  - M. Segment Information
- VI. Combined Statement of Cash Flows—All Proprietary Fund Types  
(and Similar Trust Funds)
- A. Title
  - B. Format and Policy
  - C. Classification of Cash Receipts and Cash Payments
  - D. Content and Form
  - E. Noncash Investing, Capital, and Financing Activities
- Appendix
    - A. The Financial Reporting Entity
    - B. Additional Disclosures Required by the President's Council on Integrity and Efficiency (PCIE) Standards Subcommittee Uniform Desk Review Guide for A-128 Audits.

**.03 CHECKLIST QUESTIONNAIRE**

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	<u>YES</u>	<u>NO</u>	<u>N/A</u>
<b>I. <u>GENERAL</u></b>			
<b>A. Titles and Memoranda</b>			
1. Are all financial statements titled properly? [GASB 1, Sec. 2200.106 (GASB Cod. Sec. 2200.106); SAS 14, par. 7 (AU 621.07)]	_____	_____	_____
2. If totals by account are presented in the General Purpose or Component Unit (Combined) Financial Statements, are totals noted as memoranda only? [GASB 1, Sec. 2200.113 (GASB Cod. Sec. 2200.113); ASLGU, Ch. 18, par. 9]	_____	_____	_____
3. If the financial statements are prepared in conformity with GAAP, do the fund types used conform to those described in GASB Sec. 1300.104? [GASB 1, Sec. 1300.104 (GASB Cod. Sec. 1300.104)]	_____	_____	_____

YES   NO   N/A

B. Significant Accounting Policies

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Is a summary of significant accounting policies shown separately as a stand-alone summary?<br>[GASB 1, Sec. 2300.108 (GASB Cod. Sec. 2300.108); APB 22, par. 8 (AC A10.102)]                                   | _____ | _____ | _____ |
| 2. If the summary of significant accounting policies is shown separately as a stand-alone summary, has each page of the GPFS been referenced to the summary?<br>[GASB 1, Sec. 2300.108 (GASB Cod. Sec. 2300.108)] | _____ | _____ | _____ |
| 3. Does the summary of significant accounting policies address the following:   |       |       |       |
| a. Criteria used to determine the scope of the reporting entity?<br>[GASB 1, Sec. 2300.104a (GASB Cod. Sec. 2300.104a); GASB 1, Sec. 2600.115 (GASB Cod. Sec. 2600.115)]  | _____ | _____ | _____ |
| b. Revenue and expenditure recognition policies (i.e., measurement focus and basis of accounting)?<br>[GASB 1, Sec. 2300.104a (GASB Cod. Sec. 2300.104a); GASB 1, Sec. 1600.108 (GASB Cod. Sec. 1600.108)]        | _____ | _____ | _____ |
| c. Method of encumbrance accounting and reporting?<br>[GASB 1, Sec. 2300.104a (GASB Cod. Secs. 2300.104a); GASB 1, Sec. 1700.130 (GASB Cod. Sec. 1700.130)]   | _____ | _____ | _____ |
| d. Policy with regard to reporting infrastructure assets, including budgetary accounting?<br>[GASB 1, Sec. 2300.104a (GASB Cod. Sec. 2300.104a); GASB 1, Sec. 1400.109 (GASB Cod. Sec. 1400.109)]                 | _____ | _____ | _____ |
| e. Policy with regard to capitalization of interest costs on fixed assets?<br>[GASB 1, Sec. 2300.104a (GASB Cod. Sec. 2300.104a); GASB 1, Sec. 1400.111 (GASB Cod. Sec. 1400.111)]                                | _____ | _____ | _____ |

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
f. Description of the specific reasons for excluding any agencies or component units that meet the criteria in NCGA Statement No. 3? [GASB 1, Sec. 2100.121 and .122 (GASB Cod. Secs. 2100.121 and .122)]	---	---	---
g. The extent to which fixed asset costs have been estimated and the methods of estimation? [GASB 1, Sec. 1400.112 (GASB Cod. Sec. 1400.112); GASB 1, Sec. 2300.105n (GASB Cod. Sec. 2300.105n)]	---	---	---
h. The use of the modified accrual basis for governmental fund types? [GASB 1, Sec. 1600.105 (GASB Cod. Sec. 1600.105)]	---	---	---
i. Nature and amount of inconsistencies in financial statements caused by transactions between component units having different fiscal year-ends? [GASB 1, Sec. 2300.105s (GASB Cod. Sec. 2300.105s); GASB 1, Sec. 2600.113 (GASB Cod. Sec. 2600.113)]	---	---	---
j. Have changes in the fiscal year-ends of component units included in the reporting entity been disclosed? [GASB 1, Sec. 2600.114 (GASB Cod. Sec. 2600.114)]	---	---	---
k. Basis of presentation-fund accounting, including fund categories/generic fund types, account groups, total columns used in combined financial statements and the effects of component units with differing fiscal year-ends? [GASB Cod. Sec. 2300.601]	---	---	---
l. The policy with regard to expenditure recognition of inventories; purchases or consumption method? [GASB 1, Sec. 1600.122a (GASB Cod. Sec. 1600.122a)]	---	---	---
m. Policy with regard to vacation and sick leave? [GASB 1, Sec. C60 (GASB Cod. Sec. C60)]	---	---	---



	<u>YES</u>	<u>NO</u>	<u>N/A</u>
n. Policy with regard to investments? [GASB 3, (GASB Cod. Sec. I50)]	—	—	—
<b>C. Accounting Changes</b>			
1. For an accounting change does disclosure in the period of the change include:			
a. Nature of the change?	—	—	—
b. Justification for the change and a clear explanation of the newly adopted principle and why it is preferable?	—	—	—
c. Effect on excess of revenues over expenses/expenditures, as appropriate? [APB 20, par. 17 (AC A06.113)]	—	—	—
2. Have the applicable AICPA Statements of Position and Guides listed in Appendix A to SFAS 83 (AC section A06 Exhibit 112A) been considered in justification of a change in accounting principle? [SFAS 32, par. 11 and APB 20, par. 16 (AC A06.112)]	—	—	—
3. If appropriate, is the cumulative effect of an accounting change shown separately between the captions "extraordinary items" and "excess of revenues over (under) expenditures"? [APB 20, pars. 18-26 (AC A06.114-.122 and E09.104)]	—	—	—
4. Are the effects of changes in accounting estimate disclosed if they are material? [APB 20, pars. 31-33 (AC A06.130.-.132)]	—	—	—
5. If a change in reporting entity has occurred, have the financial statements and disclosures been made in accordance with APB 20, pars. 34 and 35? [APB 20, pars. 34 and 35 (AC A35.112-.113)]	—	—	—
6. Is the nature of an error in previously issued financial statements and the effect of its correction on the excess of revenues over (under) expenditures before extraordinary items, and net income dis-			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
closed in the period in which the error was discovered and corrected? [APB 20, par. 37 (AC A35.105)]	—	—	—
7. For prior period adjustments:			
a. Are the resulting effects on the net income of prior periods disclosed in the financial statement for the year in which the adjustments are made?	—	—	—
b. For single period statements does the disclosure indicate the effects of such restatement on the balance of fund balance/retained earnings at the beginning of the period and on the excess of revenues over (under) expenditures of the immediately preceding period?	—	—	—
c. If financial statements for more than one period are presented does the disclosure include the effects for each of the periods included in the statements? [APB 9, par. 26 (AC A35.107)]	—	—	—
8. If the prior period adjustments pertain to years presented in a comparative operating statement as for example, historical summaries of financial data, have they been reflected therein with appropriate disclosure? [APB 9, par. 27 (AC A35.108)]	—	—	—
9. For interim financial reports regarding an adjustment related to prior interim periods of the current fiscal year, was the following disclosed:			
a. The effect on excess (deficiency) from continuing operations and excess (deficiency) for each prior interim period of the current fiscal year,	—	—	—
and			
b. Excess (deficiency) from continuing operations and excess (deficiency) for each prior interim period restated. [SFAS 16, par. 15 (AC A35.111)]	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
<b>D. Comparative Financial Statements</b>			
1. Have comparative statements been considered? [ARB 43, Ch. 2A, pars. 1-2 (AC F43.101-.102)]	—	—	—
2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented, repeated or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	—	—	—
3. If changes have occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	—	—	—
<b>E. Financial Instruments</b>			
1. Does the entity have a financial instrument that is:			
a. cash in banks or on hand,	—	—	—
or			
b. evidence of an ownership interest in an entity,	—	—	—
or			
c. a contract that both:			
(1) imposes on one entity a contractual obligation (liability):			
(a) to deliver cash or financial instrument to a second entity	—	—	—
or			
(b) to exchange financial instruments on potentially unfavorable terms with the second entity?	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(2) Conveys to that second entity a contractual right:			
(a) to receive cash or another financial instrument from the first entity	—	—	—
or			
(b) to exchange other financial instruments on potentially favorable terms with the first entity?	—	—	—
[FASB 105, par. 6 (AC F25.106)]			
2. For financial instruments with off-balance-sheet risk (except for the instruments specifically excluded by the Statement) was the following disclosed either in the body of the financial statements or in the notes by class of financial instrument:*			
a. The face or contract amount (or notional principal amount if there is no face or contract amount)?	—	—	—
b. The nature of terms, including, at a minimum, a discussion of:			
(1) The credit and market risk of those instruments?	—	—	—
(2) The cash requirements of those instruments?	—	—	—
(3) The related accounting policy pursuant to the requirements of APB Opinion No. 22, "Disclosure of Accounting Policies"?	—	—	—
[SFAS 105, par. 17 (AC F25.112)]			

---

\* Practices for grouping and separately identifying—classifying—similar financial instruments in statements of financial position, in notes to financial statements and in various regulatory reports have developed and become generally accepted, largely without being codified in authoritative literature. In this Statement, class of financial instrument refers to those classifications.

YES NO N/A

3. For financial instruments with off-balance-sheet risk (except as noted in 2), was the following disclosed either in the body of the financial statements or in the notes by the class of financial instrument:

a. The amount of accounting loss the entity would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and the collateral or other security, if any, for the amount due proved to be of no value to the entity?

\_\_\_ \_\_\_ \_\_\_

b. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?

\_\_\_ \_\_\_ \_\_\_

[SFAS 105, par. 18 (AC F25.113)]

4. Were disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from individual counterparty or groups of counterparties (except for certain insurance and investment contracts, purchase and pension obligations), included in the following:

a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?

\_\_\_ \_\_\_ \_\_\_

b. The amount of the accounting loss due to credit risk the entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the entity?

\_\_\_ \_\_\_ \_\_\_

YES   NO   N/A

c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's security, and the nature and a brief description of the collateral or other security supporting those financial instruments?  
[SFAS 105, par. 20 (AC F25.115)]

\_\_\_\_\_

F. Nonmonetary Transactions

1. Do disclosures for nonmonetary transactions during the period include:

a. Nature of the transactions?

\_\_\_\_\_

b. Basis of accounting for the assets transferred?

\_\_\_\_\_

c. Gains or losses recognized on the transfers?

\_\_\_\_\_

[APB 29, par. 28 (AC C11.102 and N35.120); FASBI 30 (AC N35.114-.119)]

2. Are nonmonetary assets recorded in the fund to which they relate at estimated fair value?

\_\_\_\_\_

[GASB 1, Sec. 1400.113 (GASB Cod. Sec. 1400.113)]

3. If nonmonetary assets are donated to a governmental unit for use in general government activities, have they been recorded in the General Fixed Assets Account Group?

\_\_\_\_\_

[GASB 1, Sec. 1400.113 (GASB Cod. Sec. 1400.113)]

4. If the donation of nonmonetary assets reduces the government's current or future expenditure requirements, has the governmental unit elected to report the donation in the appropriate fund as an "other financing use" and an "other financing source" of resources?

\_\_\_\_\_

[ASLGU, Ch. 9, par. 21]

G. Contingencies and Commitments

1. Is disclosure made in governmental funds on the face of the financial statements

YES   NO   N/A

- or in the notes of the nature and amount of accrued loss contingencies necessary to keep the financial statements from being misleading showing the total claims and judgments determined for the year under FASB 5 "Accounting for Contingencies" less (plus) the amount recorded as long-term obligations in the General Long-Term Debt Account Group?  
[SFAS 5, par. 9 (AC C59.108); FASBI 14, pars. 3-7 (AC C59.124-.127); GASB 1, Sec. 1500.110 (GASB Cod. Sec. 1500.110); GASB 1, Sec. C50.112 (GASB Cod. Sec. C50.112)]
2. Where a loss pertains to proprietary funds, have the criteria of FASB 5 been followed without modification in making disclosures?  
[GASB 1, Sec. C50.115 (GASB Cod. Sec. C50.115)]
3. For loss contingencies not accrued, do disclosures indicate:
- a. Nature of contingency?
- b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made?  
[SFAS 5, par. 10 (AC C59.109 and C59.111); GASB 1, Sec. 1500.110 (GASB Cod. Sec. 1500.110)]
4. Are guarantees of the entity, even if the possibility of default is remote, disclosed in the financial statements?  
[ASL GU, Ch. 11, par. 28]
5. If the entity is assuming a moral obligation, is this disclosed in the financial statements?  
[ASL GU, Ch. 11, par. 28]
6. With respect to no-commitment debt, is its existence disclosed in the financial statements?  
[ASGLU, Ch. 11, par. 28]
7. For unconditional purchase obligations not recorded on the purchaser's balance sheet, is the following disclosed:

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
a. The nature and term of the obligation(s)?	_____	_____	_____
b. The amount of the fixed and determinable portion of the obligation(s) as of the date of the latest balance sheet presented in the aggregate and, if determinable, for each of the five succeeding fiscal years?	_____	_____	_____
c. The nature of any variable components of the obligation?	_____	_____	_____
d. The amounts purchased under the obligation(s) (for example, the take-or-pay or throughput contract) for each period for which a Statement of Revenue and Expenditures is presented? [SFAS 47, par. 7 (AC C32.102)]	_____	_____	_____
8. Is disclosure made of conditions that raise a question about an entity's ability to continue in existence and viable plans to overcome these difficulties? [SAS 59, par. 10 (AU 340.10); ASLGU, Ch. 18, par. 18]	_____	_____	_____
9. Encumbrances: Where appropriations lapse at year-end, even if encumbered, and the governmental unit intends to honor them, do the notes to financial statements disclose the outstanding encumbrances at year-end or is disclosure affected by reserving a portion of the fund balance? [GASB 1, Sec. 1700.129d (GASB Cod. Sec. 1700.129d)]	_____	_____	_____
10. If a governmental unit is prohibited by law from budgeting or appropriating property taxes recognized as revenue pursuant to GASB 1, Sec. P70.104, was disclosure made by a reservation of fund balance, and was this explained in the notes to financial statements? [GASB 1, Sec. P70.104 (GASB Cod. Sec. P70.104)]	_____	_____	_____
11. Where payments have been made to an internal service self-insurance fund to pay claims and judgments of governmental funds, and the claims were based on actu-			



	<u>YES</u>	<u>NO</u>	<u>N/A</u>
<p>actuarially determined liabilities, have these transfers been classified as operating transfers and not as an expenditure of the insured fund?  [GASB 1, Sec. C50.117 (GASB Cod. Sec. C50.117)]</p>	—	—	—
<p>12. Have any amounts that were transferred which were in excess of the amount of the actuarially determined amount been classified as residual equity transfers?  [GASB 1, Sec. C50.117 (GASB Cod. Sec. C50.117)]</p>	—	—	—
<p>13. Are the nature and amount of guarantees disclosed (for example, guarantee of indebtedness of others, obligations of banks under standby letters of credit)?  [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 2-3 (AC C59.114)]</p>	—	—	—
<p>14. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization?  [SFAS 5, par. 17 (AC C59.118)]</p>	—	—	—
<p>15. Has disclosure been made of unused letters of credit, assets pledged as security for loans, working capital commitments, and dividend restructuring?  [SFAS 5, pars. 18-19 (AC C59.120)]</p>	—	—	—
<p>16. Are disclosures made of any material violations of legal and contractual provisions?  [GASB 1, Sec. 2300.104h (GASB Cod. Sec. 2300.104h)]</p>	—	—	—

H. Subsequent Events

<p>1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provided additional evidence with respect to conditions that existed at the date of the balance sheet?  [SFAS 5, par. 8 (AC C59.105); SAS 1, Secs. 560.03-.04, 560.07 and 561.01-.09 (AU 560.03-.04, 560.07 and 561.01-.09)]</p>	—	—	—
---	---	---	---

YES   NO   N/A

2. Are subsequent events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date adequately disclosed to keep the financial statements from being misleading?  
[SFAS 5, par. 11 (AC C59.112); APB 16, par. 61 (AC B50.120); SAS 1, Secs. 560 .05-.07, 560.09 and 561.01-.09 (AU 560 .05-.07, 560.09 and 561-.01-.09); GASB 1, Secs. 1500.110 and GASB 6, par. 13 (GASB Cod. Sec. 1500.110); GASB 1, Sec. 2300 .104d (GASB Cod. Sec. 2300.104d)]

\_\_\_\_   \_\_\_\_   \_\_\_\_

I. Related-Party Transactions

1. Do lease arrangements exist between state and local governments and public authorities?  
[GASB 1, Secs. L20.123 and 2300.150f and g (GASB Cod. Secs. L20.123 and 2300.105f and g)]

\_\_\_\_   \_\_\_\_   \_\_\_\_

2. Have the nature and extent of leasing transactions with related parties been disclosed?  
[GASB 1, Sec. L20.123 (GASB Cod. Sec. L20 .123); SFAS 13, par. 29 (AC L10.125)]

\_\_\_\_   \_\_\_\_   \_\_\_\_

3. Are the following disclosures made of material related party transactions, other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business:

- a. The nature of the relationship(s) involved?

\_\_\_\_   \_\_\_\_   \_\_\_\_

- b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which a Statement of Revenue and Expenditures is presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements?

\_\_\_\_   \_\_\_\_   \_\_\_\_

- c. The dollar amount of transactions for each of the periods for which Statements of Revenue and Expenditures are

YES   NO   N/A

presented and the effects of any change in the method of establishing the terms from that used in the preceding period?

\_\_\_\_\_

d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement?

\_\_\_\_\_

[SFAS 57, pars. 2-4 (AC R36.102-.104); SAS 45, par. 11 (AU 334.11-.12)]

#### J. Component Units

1. If a component unit has adopted accounting principles that are not in conformity with governmental accounting and reporting standards but those principles are considered to be generally accepted and where the inclusion of the component unit would distort a fund type of the reporting entity, is the component unit presented in a separate column on the financial statements of the reporting entity as a discrete presentation?

\_\_\_\_\_

[GASB 1, Sec. 2600.109 (GASB Cod. Sec. 2600.109)]

2. If the answer to J.1 is yes, do the accompanying notes to the financial statements clearly disclose the accounting policies of the component unit and the relationship of the component unit to the oversight unit?\*

\_\_\_\_\_

[GASB 1, Sec. 2600.109 (GASB Cod. Sec. 2600.109)]

3. Do the notes to the reporting entity's financial statements disclose the component units that have been combined to form the reporting entity and the key decision criteria that were considered?

\_\_\_\_\_

[GASB 1, Sec. 2600.116 (GASB Cod. Sec. 2600.116)]

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\* GASB Statement No. 14, The Financial Reporting Entity, effective for financial statements for periods beginning after December 15, 1992, establishes new standards for defining and reporting on the financial reporting entity. See Appendix A for the checklist questionnaire.

YES   NO   N/A

4. Has financial information concerning each component unit, as well as the oversight unit, been provided in the notes to insure that the general purpose financial statements communicate the information that is necessary for fair presentation and is not readily apparent from, or cannot be included in, the statements themselves?

[GASB 1, Sec. 2600.116 (GASB Cod. Sec. 2600.116)]

\_\_\_\_

5. Where separate component unit financial statements are issued, was disclosure made to clearly indicate that the component unit is an integral part of the reporting entity?

[GASB 1, Sec. 2600.119 (GASB Cod. Sec. 2600.119)]

\_\_\_\_

K. Pension Disclosures

1. Pension Plans—Separately Issued PERS Reports—Defined Benefit Pension Information

For pension disclosures in separately issued PERS financial reports, do the notes to the financial statements disclose the following:

a. Plan description

- (1) Identification of the PERS as the administrator of a single-employer agent multiple-employer, or cost sharing multi-employer plan, and the reporting entity, if any, of which it is a component unit; also number and types of contributing employers and non-employer contributors?

\_\_\_\_

- (2) Types of employees covered and current membership, with separate identification of the number of (a) retirees and beneficiaries currently receiving benefits, and terminated employees entitled to benefits but not yet receiving them and (b) fully vested, partially vested, and non-vested

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
active employees covered by the plan?	---	---	---
(3) A brief statement about benefit provisions, employee eligibility requirements including eligibility for vesting and the authority under which benefit provisions are established?	---	---	---
(4) Employer and employee obligations to contribute and the authority under which those obligations are established? [GASB 5, par. 30a (GASB Cod. Sec. Pe6 .130a)]	---	---	---
<b>b. Summary of Significant Accounting Policies and Plan Asset Matters</b>			
(1) Significant accounting policies including basis of accounting, method used to value assets for balance sheet purposes, and, if assets are valued at cost, the method used to account for exchanges or "SWAPS" of securities? (Also, disclose the effects on the amount of net assets available for benefits of any changes in accounting policies during the year.)	---	---	---
(2) Investments (other than U.S. government and U.S. government guaranteed obligations) in any one organization that represents 5 percent or more of net assets available for benefits?	---	---	---
(3) Investments in, loans to, or leases with any PERS official, governmental employer official, party related to a PERS official or governmental employer official nonemployer contributor or organization included in the reporting entity of any participating employer? (Loans to employees from			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
their own contributions, permitted by the terms of the plan, should not be listed.)	---	---	---
[GASB 5, par. 30b (GASB Cod. Sec. Pe6 .130b)]			

c. Funding Status and Progress

- |   |     |     |     |
|---|-----|-----|-----|
| (1) Explanation that the pension benefit obligation, which is the actuarial present value of credited projected benefits is a standardized disclosure measure of the present value of pension benefits, adjusted for the effect of projected salary increases and any step-rate benefits estimated to be payable in the future as a result of employee service to date?   | --- | --- | --- |
| (2) Date of the actuarial valuation performed to determine the pension benefit obligation?  | --- | --- | --- |
| (3) Significant actuarial assumptions used to compute the pension benefit obligation, including rate of return on investment of present and future assets (discount rate) projected salary increases due to (1) inflation and (2) merit or seniority, and postretirement benefit increases?<br>[The rate of return on investments should be a rate based on an estimated long-term yield considering (i) the nature and mix of current and expected investment and (ii) the basis used to value those assets. That rate and other assumptions should be determined by taking into account all relevant factors and expectations and should be calculated in accordance with recognized actuarial principles.] | --- | --- | --- |
| (4) Pension benefit obligation in total and segregated as follows:  |     |     |     |

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(a) Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them?	---	---	---
(b) Current employees—			
1. Accumulated employee contributions including allocated investment income, if any?	---	---	---
2. Employer-financed vested?	---	---	---
3. Employer-financed nonvested?	---	---	---
(5) Net assets available for benefits, as of the same date as the pension benefit obligation, determined in accordance with the method used to value assets for PERS balance sheet purposes? If assets are valued at other than market, has market value also been disclosed?	---	---	---
(6) Difference between the total amounts in d. and e. labeled "Unfunded [assets in excess of] pension benefit obligation"?	---	---	---
(7) Explanation including separate dollar effects on the pension benefit obligation, of any current-year changes in (1) actuarial assumptions or (2) benefit provisions?	---	---	---
[GASB 5, par. 30c (GASB Cod. Sec. Pe6 .130c)]			
d. Contributions Required and Contributions Made			
(1) Funding Policy, including the role of actuarially determined contribution requirements in carrying out that policy?	---	---	---
(2) If contribution requirements are actuarially determined, have these disclosures been made:			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(a) Actuarial funding method and the period and method for amortizing any unfunded actuarial accrued liability?	—	—	—
(b) Has a statement been included that significant actuarial assumptions used to compute actuarially determined contribution requirements are the same as those used to compute the pension benefit obligation, or explanation of the differences?	—	—	—
(c) Actuarially determined contribution requirements and the amounts intended to (i) cover normal cost and (ii) amortize any unfunded actuarial accrued liability, and contributions actually made by employer(s) and employees. Single-employer PERS and cost-sharing multiple-employer PERS should also disclose both employer and employee contributions actually made as percentages of the current year covered payroll?	—	—	—
(d) Explanation, including separate dollar effects on contribution requirements, of any current-year changes in (i) actuarial assumptions, (ii) benefit provisions, (iii) actuarial funding methods, or (iv) other significant factors?	—	—	—
(3) If contribution requirements are not actuarially determined, were the following disclosed:			
(a) The fact that the contribution requirement was not actuarially determined?	—	—	—
(b) How the requirement was established? (For example, a rate established by law)	—	—	—



	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(c) Whether an actuary was used to determine the actuarial implications of the requirement (for example, period of amortization of the unfunded actuarial accrued liability), and what those implications are?	—	—	—
(d) The amount of the contribution requirement and the contribution actually made by employer(s) and employees. Single-employer PERS and cost sharing multi-employer PERS should also disclose both employer and employee contributions actually made as percentages of current year covered payroll?	—	—	—
(e) Explanation, including separate dollar effects on contribution requirements, of any current-year changes in the method used to calculate or establish contribution requirements, for example, a change in the law? [GASB 5, par. 30d (GASB Cod. Sec. Pe6.130d)]	—	—	—
e. Location of the 10-year historical trend information required to be disclosed by paragraph 32 of Statement No. 5 of the Governmental Accounting Standards Board (see below), and an explanation that this provides information about progress made in accumulating sufficient assets to pay benefits when due? [GASB 5, par. 30e (GASB Cod. Sec. Pe6.130e)]	—	—	—
f. Does the PERS reporting also include disclosure of 10-year historical trend information as required supplementary information? [GASB 5, par. 31 (GASB Cod. Sec. Pe6.131)]	—	—	—

YES   NO   N/A

g. Does the 10-year historical trend information disclose the following:

(1) Net assets available for benefits (as of the same date as the pension benefit obligation and as valued for PERS balance sheet purposes), the pension benefit obligation, and the former expressed as a percentage of the latter, also unfunded [assets in excess of] pension benefit obligation, annual covered payroll, and the former expressed as a percentage of the latter?

\_\_\_ \_\_\_ \_\_\_

(2) Revenues by sources (employer contributions, employee contributions, investment income, and other income) and expenses by type (benefit payments, administrative expenses, refunds of employee contributions, and other expenses)?

\_\_\_ \_\_\_ \_\_\_

(3) Except for agent multiple-employer PERS, were employer contributions expressed both as dollar amounts and as percentages of annual covered payroll? (The disclosure should state whether contributions were made in accordance with actuarial requirements.)

\_\_\_ \_\_\_ \_\_\_

(4) If contributions actually made for particular years differed from actuarial or legal requirements, both the contribution made and the contribution required should be presented for those years?

\_\_\_ \_\_\_ \_\_\_

(5) Have the timing, nature and total dollar effect of any changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, or other factors that significantly affect the information presented in a, b and c above been disclosed for the year in which the changes are made?

\_\_\_ \_\_\_ \_\_\_

[GASB 5, par. 32 (GASB Cod. Sec. Pe6.132)]

YES   NO   N/A

2. Pension Disclosures in Employer Financial Reports—Defined Benefit Pension Information—Single-Employer and Agent Multiple-Employer Plans

Do employers disclose in their notes to financial statements the information that follows for each single-employer PERS and each agent multi-employer PERS to which they contribute:

a. Plan Description

(1) Identification of the PERS to which contributions are made as single employer or agent multi-employer?

\_\_\_\_\_

(2) Amount of the employer's current year covered payroll and the employer's total current-year payroll for all employees?

\_\_\_\_\_

(3) A brief statement about types of employees covered, benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established?

\_\_\_\_\_

(4) Employer and employee obligations to contribute and the authority under which those obligations are established?

\_\_\_\_\_

[GASB 5, par. 35a (GASB Cod. Sec. P20.125a)]

b. The amounts and types of securities, if any, of the employer and related parties included in PERS assets, including loans to the employer? (Whether in the form of notes, bonds, or other instruments)

\_\_\_\_\_

[GASB 5, par. 35b (GASB Cod. Sec. P20.125b)]

c. Funding Status and Progress

- (1) Explanation that the pension benefit obligation which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date? \_\_\_\_\_
- (2) Date of the actuarial valuation performed to determine the pension benefit obligation?  
(Actuarial valuations must be performed at least biennially, with an actuarial update to the date 12 months after that biennial valuation.) (Balance sheet date valuations are encouraged but not required.) \_\_\_\_\_
- (3) Significant actuarial assumptions used to compute the pension benefit obligation, including rate of return on investment of present and future assets (discount rate), projected salary increases due to (a) inflation and (b) merit or seniority, and postretirement benefit increases?  
The rate of return on investments should be a rate based on an estimated long-term yield considering (i) the nature and mix of current and expected investments and (ii) the basis used to value those assets. \_\_\_\_\_
- (4) Pension benefit obligation applicable to the entity's employees, in total and segregated as follows:  
  
(a) Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them? \_\_\_\_\_

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(b) Current employees—			
(i) Accumulated employee contributions including allocated investment income, if any?	—	—	—
(ii) Employer-financed vested?	—	—	—
(iii) Employer-financed non-vested?	—	—	—
(5) Net assets available for benefits, as of the same date as the pension benefit obligation, determined in accordance with the method used to value assets for PERS balance sheet purposes?	—	—	—
Also, the method used to value assets for PERS balance sheet purposes?	—	—	—
If assets are valued at other than market, is market value also disclosed?	—	—	—
(6) Difference between the total amounts in 4 and 5 labeled "Unfunded [assets in excess of] pension benefit obligation"?	—	—	—
(7) Explanation, including separate dollar effects on the pension benefit obligation, of any current-year changes in			
(1) actual assumptions? or	—	—	—
(2) benefit provisions?	—	—	—
[GASB 5, par. 35c (GASB Cod. Sec. P20 .125c)]			
d. Contribution Required and Contribution Made			
(1) Funding policy, including the role of actuarially determined contribution requirements in carrying out that policy?	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(2) If contribution requirements are actuarially determined, have these disclosures been made?	_____	_____	_____
(a) Actuarial funding method and the period and method for amortizing any unfunded actuarial accrued liability?	_____	_____	_____
(b) Statement that significant actuarial assumptions used to compute actuarially determined contributions requirements are the same as those used to compute the pension benefits obligation, or an explanation of the differences?	_____	_____	_____
(c) Actuarially determined contribution requirement and the amounts intended to (a) cover normal cost and (b) amortize any unfunded actuarial accrued liability, and contributions actually made by the employer and employees, expressed both in dollar amounts and as percentages of current-year covered payroll?	_____	_____	_____
(d) Explanation including separate dollar effects on contribution requirements, of any current-year changes in (a) actuarial assumptions, (b) benefits provisions, (c) actuarial funding method, or (d) other significant factors?	_____	_____	_____
(3) If contribution requirements are not actuarially determined, have the following disclosures been made:			
(a) The fact that the contribution requirement was not actuarially determined?	_____	_____	_____
(b) How the requirement was established (for example, a rate established by law)?	_____	_____	_____

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(c) Whether an actuary was used to determine the actual implications of the requirement (for example, period of amortization of the unfunded actuarial accrued liability), and what those implications are?	—	—	—
(d) The amount of the contribution requirement and the contribution actually made by employer and employees. Also disclose both the employer and employee contribution actually made as percentages of current year covered payroll?	—	—	—
(e) Explanation including separate dollar effects on contributions required of any current-year changes in the method used to calculate or establish contribution requirements, for example, a change in the law? [GASB 5, par. 35d (GASB Cod. Sec. P20.125d)]	—	—	—
e. Three-Year Historical Trend Information (Until three years' data are available; as many as are available should be presented.)			
(1) Net assets available for benefits expressed as percentages of the pension benefit obligation applicable to the entity's employees?	—	—	—
(2) Unfunded [assets in excess of] pension benefit obligation, expressed as percentages of annual covered payroll?	—	—	—
(3) Employer contributions expressed as percentages of annual covered payroll. This disclosure should state whether contributions were made in accordance with actuarially determined requirements? [GASB 5, par. 35e (GASB Cod. Sec. P20.125e)]	—	—	—

YES   NO   N/A

f. Reference to 10-year historical trend information in separately issued PERS reports (or in employer reports: see Section K2g) and an explanation that this provides information about progress made in accumulating sufficient assets to pay benefits when due?  
 [GASB 5, par. 35f (GASB Cod. Sec. P20 .125f)]

\_\_\_\_\_

g. Has the following required 10-year trend information been disclosed:

(1) Net assets available for benefits? (As of the same date as the pension benefit obligation as valued for PERS balance sheet purposes.)

\_\_\_\_\_

(2) Pension benefits obligation, and the net assets available for benefits expressed as a percentage of the pension benefit obligation?

\_\_\_\_\_

(3) Unfunded [assets in excess of] pension benefit obligation, annual covered payroll, and the percentage of unfunded [assets in excess of] pension benefits obligation as a percentage of annual covered payroll?

\_\_\_\_\_

(4) The timing, nature and total dollar effect of any changes in actuarial assumptions, benefits provisions, actuarial funding methods, accounting policies or other factors that significantly affect the information presented for the year in which the changes are made?

\_\_\_\_\_

[GASB 5, par. 36 (GASB Cod. Sec. P20 .126)]

3. Single Employer PERS Included as a Pension Trust Fund in the Employer Reporting Entity—Defined Benefit Pension Information

Does the employer reporting on its participation in a single-employer PERS that is included as a pension trust fund in the employer reporting entity make the following disclosures:



YES   NO   N/A

- a. A single set of disclosures representing a combination of the disclosures required by Section K1 and K2 of this disclosure checklist adapted to cover both the PERS and the employer?      \_\_\_\_\_
- b. In order to satisfy the requirements of Section K2f of this disclosure checklist (reference to 10-year historical trend information in separately issued PERS reports or in employer reports and an explanation that this provides information about progress made in accumulating sufficient assets to pay benefits when due), has the employer made reference to the required 10-year historical trend information included in an employer CAFR or in a separately issued PERS report, if that report is publicly available?  
[GASB 5, par. 37 (GASB Cod. Sec. P20 .127)]      \_\_\_\_\_
4. Multi-Employer PERS Included as a Pension Trust Fund in the Employer Reporting Entity—Defined Benefit Pension Information
- Does the employer reporting entity combine the disclosure requirements of:
- a. Section K1—"Pension Plan Disclosures in Separately Issued PERS Reports—Defined Benefit Information?"      \_\_\_\_\_
- b. Section K2—"Pension Disclosures in Employer Financial Reports—Defined Benefit Pension Information?"      \_\_\_\_\_
- c. Section K2f—certain 10-year historical information?      \_\_\_\_\_
- d. Section K5—"Employers Contributing to Cost-Sharing Multi-Employer PERS — Defined Benefit Pension Information?"  
[GASB 5, par. 38 (GASB Cod. Sec. P20 .128)]      \_\_\_\_\_
5. Employers Contributing to Cost-Sharing Multi-Employer PERS — Defined Benefit Pension Information

YES   NO   N/A

Do the employers disclose in their notes to financial statements the following information for each cost-sharing multi-employer PERS to which they contribute:

- a. Identification of the PERS as a cost-sharing multiple-employer PERS? \_\_\_\_\_
- b. Amount of the employer's current-year covered payroll and the employer's total current-year payroll for all employees? \_\_\_\_\_
- c. A brief statement about types of employees covered, benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established? \_\_\_\_\_
- d. Employer and employee obligations to contribute and the authority under which those obligations are established? \_\_\_\_\_
- e. The entity's actuarially determined contribution requirement and the employee and employer contributions actually made, expressed both in dollar amounts and as percentages of the employer's current-year covered payroll; also, disclose any current-year changes in actuarial assumptions, benefit provisions, actuarial funding method, or other significant factors and the aggregate effect on the employer's contribution rate, expressed as a percentage of the employer's current-year covered payroll? \_\_\_\_\_
- f. Explanation that the pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users

YES   NO   N/A

assess the PERS funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS and among employers?

\_\_\_   \_\_\_   \_\_\_

g. The total PERS pension benefit obligation and the total PERS net assets available for benefits (as of the same date as the pension benefit obligation)?\*

h. The employer's actuarially determined contribution requirement expressed as a percentage of total current-year actuarially determined contribution requirements for all employers?

\_\_\_   \_\_\_   \_\_\_

i. Reference to 10-year historical trend information in separately issued PERS reports and an explanation that this provides information about progress made in accumulating sufficient assets to pay benefits when due?

\_\_\_   \_\_\_   \_\_\_

j. The amounts and types of securities, if any, of the employer and related parties included in PERS assets, including loans to the employer (whether in the form of notes, bonds, or other instruments)?

\_\_\_   \_\_\_   \_\_\_

[GASB 5, par. 39 (GASB Cod. Sec. P20 .129)]

6. Component Units' Pension Information in the Reporting Entity's Financial Reports—  
Defined Benefit Pension Information

a. When separate financial reports of component units are publicly available (containing the pension disclosures

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\* An entity whose contribution to a cost-sharing multiple-employer PERS exceeds 50 percent of the actuarially determined contribution requirements for all participating entities may disclose its allocated share of the PERS pension benefit obligation and net assets available for benefits instead of the disclosure required by GASB No. 5, paragraph 39g. That allocation should be based on the percentage required to be disclosed in paragraph 39h, and the method of allocation should be disclosed.

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
<p>required by GASB Statement No. 5), have the reporting entity's disclosures been minimized by referring to those reports and providing condensed data? [GASB 5, par. 40 (GASB Cod. Sec. P20 .130)]</p>	—	—	—
<p>b. Have disclosure requirements in Section K2 been limited to the following:</p>			
<p>(1) Pension benefit obligation?</p>	—	—	—
<p>(2) Net assets available for benefits?</p>	—	—	—
<p>(3) A statement indicating whether actuarially determined employer contribution requirements were met? [GASB 5, par. 40 (GASB Cod. Sec. P20 .130)]</p>	—	—	—
<p>c. Have Section K5 disclosures (employers contributing to cost-sharing multi-employer PERS) been limited to a statement that actuarially determined contribution requirements were met and that the contributions were made to the same cost-sharing multi-employer PERS in which the oversight entity participates, if that is the case? [GASB 5, par. 40 (GASB Cod. Sec. P20 .130)]</p>	—	—	—
<p>7. Noncontributing Employers—Defined Benefit Pension Information</p>			
<p>a. If the employer is not legally responsible for making contributions to a PERS but its employees are covered by a PERS because of contributions made by another entity, as described in GASB 5, par. 11, did the employer disclose in its notes to financial statements the following information for each of those situations:</p>			
<p>(1) Name of the entity making contributions on behalf of the employer's employees and the amount of the contribution?</p>	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(2) Types of employees covered and employee eligibility requirements, including eligibility for vesting?	—	—	—
(3) The employer's total current-year payroll for all employees, and its current-year covered payroll for that plan?	—	—	—
(4) Employee and nonemployer contributor obligations to contribute and the authority under which those obligations are established? [GASB 5, par. 41 (GASB Cod. Sec. P20 .131)]	—	—	—
b. If the legal responsibility for making contributions remains with the participating employer but another entity pays the annual employer contribution directly to the PERS as a matter of convenience, did the entity comply with the disclosure requirements of Section K2-5 of this checklist which apply to the participating employer? [GASB 5, par. 41 (GASB Cod. Sec. P20 .131)]	—	—	—
 8. Unfunded Pension Arrangements — Defined Benefit Pension Information			
If the defined benefit pension arrangement is not being funded and no contributions are made from any source before benefits are actually paid to retirees and other beneficiaries, has the employer disclosed its pension obligations? Were the disclosure requirements in Section K2-5 of this checklist followed? [GASB 5, par. 42 (GASB Cod. Sec. P20 .132)]	—	—	—
 9. Reporting by Nonemployer Contributors — Defined Benefit Pension Information			
Have the following disclosures been considered for each nonemployer contributor:			
a. If the entity is legally responsible for making contributions to PERS that cover individuals other than their own employees?	—	—	—

YES   NO   N/A

b. If the nonemployer contributor is legally responsible for contributions to a single-employer or agent multi-employer PERS, has disclosure been made about its participation in the PERS in accordance with Section K2-4, as appropriate?

\_\_\_\_\_

c. If the nonemployer contributor is responsible for making contributions to a cost-sharing multi-employer PERS, do the disclosures conform to the requirements of Section K5?

\_\_\_\_\_

d. Have disclosures made in accordance with Section K.2a(2) and K5b been limited to the number of employees and amount of payroll covered by the PERS to which the contributions are made?  
[GASB 5, par. 43 (GASB Cod. Sec. P20 .133)]

\_\_\_\_\_

10. Defined Contribution Pension Information

Have the following disclosures been considered for each defined contribution pension plan:

a. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan, have the appropriate disclosures been made?  
[GASB 5, par. 45 (GASB Cod. Sec. P20 .136)]

\_\_\_\_\_

b. If the substance of the plan is to provide a defined benefit in some form, have disclosures been made in accordance with Section K1-9?  
[GASB 5, par. 45 (GASB Cod. Sec. P20 .136)]

\_\_\_\_\_

c. Do notes to separately issued financial statements for defined contribution pension plans include the following information:

(1) Plan Description

(a) Identification of the PERS as the administrator of a single-employer or multi-employer de-

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
<p>financed contribution plan, and the reporting entity, if any, of which it is a component unit; also, number and types of contributing employers and nonemployer contributors?</p>	---	---	---
(b) Types of employees covered and current membership?	---	---	---
(c) A brief statement about plan provisions, including the authority under which those provisions are determined, and employee eligibility requirements, including eligibility for vesting?	---	---	---
(d) Employer and employee obligations to contribute and the authority under which those obligations are established?	---	---	---
(2) Summary of Significant Accounting Policies and Plan Asset Matters			
(a) Significant accounting policies including basis of accounting, method used to value assets for balance sheet purposes, and, if assets are valued at cost, the method used to account for exchanges or "swap" of securities? If assets are valued for balance sheet purposes at other than market, disclosure of market value? (Also, disclosure of the effects on the amount of net assets available for benefits of any changes in accounting policies during the year?)	---	---	---
(b) Investments (other than U.S. government and U.S. government-guaranteed obligations) in any one organization that represent 5 percent or more of net assets available for benefits?	---	---	---

YES   NO   N/A

(c) Investments in, loans to, or leases with any PERS official, governmental employer official, party related to a PERS official or governmental employer official, nonemployer contributor, or organization included in the reporting entity of any participating employer? (Loans to employees from their own contributions, permitted by the terms of the plan, should not be listed.)

[GASB 5, par. 46 (GASB Cod. Sec. Pe6.137)]

\_\_\_\_\_

d. Do employers disclose in the notes to financial statements the following information for each defined contribution plan to which they contribute, whether administered by a PERS, insurance company, or other organization:\*

(1) Identification of the plan to which contributions are made as a defined contribution plan?

\_\_\_\_\_

(2) Amount of the employer's current-year covered payroll and its total current-year payroll for all employees?

\_\_\_\_\_

(3) Employer and employee obligations to contribute and the authority under which those obligations are established; also, a brief statement about plan provisions and employee eligibility requirements, including types of employees covered and eligibility for vesting?

\_\_\_\_\_

---

\* These disclosures are also required to be made by nonemployer contributors, as discussed in GASB 5, par. 12 (GASB Cod. Sec. P20.123). Employers that are not legally responsible for making contributions to a defined contribution plan but whose employees are covered by a plan because of contributions made by another entity, as described in GASB 5, par. 11 (GASB Cod. Sec. P20.122), should make the disclosures required by GASB 5, par. 41 (GASB Cod. Sec. P20.131).  
[GASB 5, footnote 18 (GASB Cod. Sec. P20.137, ft. 17)]



YES   NO   N/A

(4) Contribution requirement and the contributions actually made by the employer and employees, expressed both in dollar amounts and as percentages of the employer's current-year covered payroll; also the effects of any current-year changes in plan provisions?

\_\_\_   \_\_\_   \_\_\_

(5) The amounts and types of securities, if any, of the employer and related parties included in plan assets, including loans to the employer (whether in the form of notes, bonds, or other instruments)?

\_\_\_   \_\_\_   \_\_\_

[GASB 5, par. 47 (GASB Cod. Sec. P20 .137)]

L. Postemployment Benefits Other Than Pension Benefits Disclosures

1. Does an employer that provides other postemployment benefits [OPEB] disclose, as a minimum, the following information either separately for one or more types of benefits or in the aggregate for all OPEB provided:

a. A description of the OPEB provided; employee groups covered; eligibility requirements; and the employer and participant obligations to contribute, quantified in some manner (for example, the approximate percentage of the total obligation to contribute that is borne by the employer and the participants, respectively, or the dollar or percentage contribution rates)?

\_\_\_   \_\_\_   \_\_\_

b. A description of the statutory, contractual, or other authority under which OPEB provisions and obligations to contribute are established?

\_\_\_   \_\_\_   \_\_\_

c. A description of the accounting and financing or funding policies followed, for example, a statement that the employer's contributions are financed on a pay-as-you-go basis or are advance-funded on an actuarially determined basis?

\_\_\_   \_\_\_   \_\_\_

YES   NO   N/A

d. If OPEB are advance-funded on an actuarially determined basis did the employer also disclose:

(1) The actuarial cost method and significant actuarial assumptions (including the interest rate and, if applicable, the projected salary increase assumption and the health inflation assumption) used to determine funding requirements?

\_\_\_ \_\_\_ \_\_\_

(2) The method used to value plan assets?

\_\_\_ \_\_\_ \_\_\_

e. The following expenditures/expenses information, depending on how OPEB are financed:

(1) If OPEB are financed on a pay-as-you-go basis:

(a) The amount of OPEB expenditures/expenses recognized during the period by the employer (net of participant contributions)?

\_\_\_ \_\_\_ \_\_\_

(b) The number of participants currently eligible to receive benefits?

\_\_\_ \_\_\_ \_\_\_

(c) If expenditures/expenses for OPEB cannot readily be separated from expenditures/expenses for similar types of benefit provided to active employees and their dependents, have reasonable methods to approximate OPEB expenditures/expenses been used?

\_\_\_ \_\_\_ \_\_\_

(d) If a reasonable approximation cannot be made, has the employer stated OPEB expenditures/expenses cannot be reasonably estimated?

\_\_\_ \_\_\_ \_\_\_

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(2) If OPEB are advance-funded on an actuarially determined basis:			
(a) The number of active plan participants?	_____	_____	_____
(b) The employer's actuarially required and actual contributions for the period (net of participant contributions)?	_____	_____	_____
(c) The amount of net assets available for OPEB?	_____	_____	_____
(d) The actuarial accrued liability and unfunded actuarial accrued liability for OPEB according to the actuarial cost method in use?	_____	_____	_____
f. A description (and the dollar effect, if measurable) of any significant matters that affect the comparability of the disclosures required by this paragraph with those for the previous period (for example a change in benefit provisions)?	_____	_____	_____
g. Any additional information that the employer believes will help users assess the nature and magnitude of the cost of the employer's commitment to provide OPEB? [GASB 12, par. 10 (GASB Cod. Sec. P50 .105)]	_____	_____	_____
2. Do employers who advance-fund postemployment health care benefits on an actuarially determined basis through a defined benefit PERS or plan that provides retirement income and who elect to apply the disclosure requirements of GASB Cod. Sec. P20, "Pension Activities—Employer Reporting," to postemployment health care benefits (instead of disclosing the information required by "A." above), comply with the following requirements:			
a. Disclose the health inflation assumption in addition to other significant actuarial assumptions required by GASB Cod. Sec. P20?	_____	_____	_____

YES   NO   N/A

b. Calculate information disclosed about the funded status and funding progress of postemployment health care benefits in a manner consistent with the requirements of GASB Cod. Sec. P20 for the calculation of the funded status and the funding progress of pension benefits?

[GASB 12, par. 11 (GASB Cod. Sec. P50 .106)]

\_\_\_   \_\_\_   \_\_\_

3. Are the disclosures required by "1 and 2" above made for the reporting entity as a whole?

[GASB 12, par. 12 (GASB Cod. Sec. P50 .107)]

\_\_\_   \_\_\_   \_\_\_

4. If the employer believes aggregate disclosures would be misleading, are additional or separate disclosures made for one or more fund types or component units?

[GASB 12, par. 12 (GASB Cod. Sec. P50 .107)]

\_\_\_   \_\_\_   \_\_\_

M. Deferred Compensation Plans

Deferred Compensation Plans Under Internal Revenue Code Section 457

1. Are IRC Section 457 deferred compensation balances displayed in an agency fund?

[GASB 2, par. 9 (GASB Cod. Sec. D25.109)]

\_\_\_   \_\_\_   \_\_\_

2. Is the following information disclosed for deferred compensation plans under Internal Revenue Code Section 457:

a. The plan assets remain the property of the employer until paid or made available to participants, subject only to claims of the employer's general creditors?

\_\_\_   \_\_\_   \_\_\_

b. The governmental unit's fiduciary responsibility, including uses of plan assets for purposes other than paying benefits?

\_\_\_   \_\_\_   \_\_\_

c. If the plan is a multiple-jurisdiction plan, the portion of the assets in the fund to which the administering gov-

YES   NO   N/A

ernmental entity has legal access, as distinguished from the assets held for other participating governmental employees?  
[GASB 2, par. 13 (GASB Cod. Sec. D25 .113)]

—   —   —

**N. Special Assessments**

Have the following disclosures been made:

1. If the government is obligated in some manner for special assessment debt, do the notes to financial statements disclose the information required in GASB 1, Sec. 2300 "Notes to Financial Statements," as it applies to long term debt?  
[GASB 6, par. 20 (GASB Cod. Sec. S40 .120)]

—   —   —

2. Do the notes identify and describe any guarantee, reserve or sinking fund established to cover defaults by property owners?  
[GASB 6, par. 20 (GASB Cod. Sec. S40 .120)]

—   —   —

3. Do the notes disclose the amount of special assessment receivables that are delinquent if not separately displayed on the face of the financial statements?  
[GASB 6, par. 20 (GASB Cod. Sec. S40 .120)]

—   —   —

4. If the government is not obligated in any manner for special assessment debt, do the notes disclose the amount of the debt and the fact that the government is in no way liable for repayment but is only acting as agent for the property owners in collecting the assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings, if appropriate?  
[GASB 6, par. 21 (GASB Cod. Sec. S40 .121)]

—   —   —

5. If earlier application was elected for GASB No. 6, were the accounting changes adopted to conform to the provisions of this statement applied retroactively, if practicable, and were the financial

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
statements for all prior periods presented restated? [GASB 6, par. 27 (GASB Cod. Sec. Appendix C)]	—	—	—
6. For the year in which Statement No. 6 is first applied, have the following disclosures been made:			
a. The nature of the restatement and its effect?	—	—	—
b. The reason for not restating any prior periods presented? [GASB 6, par. 27 (GASB Cod. Sec. Appendix C)]	—	—	—
O. Risk Financing and Related Insurance Issues			
1. <u>Accounting by Public Entity Risk Pools</u>			
a. Do all public entity risk pools account for their activities in an enterprise fund regardless of whether there is a transfer or pooling (sharing) of risk? [GASB 10, par. 18 (GASB Cod. Sec. Po20 .114)]	—	—	—
b. Are premiums or required contributions ordinarily recognized over the contract period in proportion to the amount of risk protection provided? [GASB 10, par. 19 (GASB Cod. Sec. Po20 .115)]	—	—	—
c. If the period of risk differs significantly from the contract period, are premiums recognized as revenue over the period of risk in proportion to the amount of risk protection provided? [GASB 10, par. 19 (GASB Cod. Sec. Po20 .115)]	—	—	—
d. If premiums are subject to adjustment, is premium revenue recognized as follows:			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(1) If the ultimate premium is reasonably estimable, is the estimated ultimate premium recognized as revenue over the contract period?	---	---	---
(a) Is the estimated ultimate premium revised to reflect current experience?	---	---	---
(2) If the ultimate premium cannot be reasonably estimated, is the cost recovery or the deposit method used until the ultimate premium becomes reasonably estimable? [GASB 10, par. 20 (GASB Cod. Sec. Po20 .116)]	---	---	---
e. If a portion of the premium is specifically identified as being collected for future catastrophe losses, is that amount recognized as revenue over the contract period? [GASB 10, par. 21 (GASB Cod. Sec. Po20 .117)]	---	---	---
f. In No. "5" above, is that amount separately identified as a reservation of pool equity if it is contractually restricted for that specific future use or if it is legally restricted for that specific use by an organization or individual outside the entity? [GASB 10, par. 21 (GASB Cod. Sec. Po20 .117)]	---	---	---
g. Is a liability for unpaid claims costs (including estimates of costs relating to incurred but not reported claims) accrued when insured events occur or, for claims-made policies, in the period in which the event that triggers coverage under the policy or participation contract occurs? [GASB 10, par. 22 (GASB Cod. Sec. Po20 .118)]	---	---	---
h. In "g." above, is the liability based on the estimated ultimate cost of settling the claims using past experience adjusted for current trends, and any			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
other factors that would modify past experience? [GASB 10, par. 22 (GASB Cod. Sec. Po20 .118)]	—	—	—
i. Are claim accruals for incurred but not reported claims made if it is probable that a loss has been incurred and the amount can be reasonably estimated? [GASB 10, par. 22 (GASB Cod. Sec. Po20 .118)]	—	—	—
j. Are changes in estimates of claims cost resulting from the continuous review process and differences between estimates and payments for claims recognized in results of operation of the period in which the estimates are changed or payments are made? [GASB 10, par. 22 (GASB Cod. Sec. Po20 .118)]	—	—	—
k. Are estimated recoveries on unsettled claims, such as salvage or subrogation, evaluated in terms of their estimated realizable value and deducted from the liability for unpaid claims? [GASB 10, par. 22 (GASB Cod. Sec. Po20 .118)]	—	—	—
l. Are estimated recoveries on settled claims deducted from the liability for unpaid claims? [GASB 10, par. 22 (GASB Cod. Sec. Po20 .118)]	—	—	—
m. Are liabilities for claim adjustment expenses accrued when the related liability for unpaid claims is accrued? [GASB 10, par. 23 (GASB Cod. Sec. Po20 .119)]	—	—	—
n. Are claims liabilities associated with structured settlements discounted if they represent contractual obligations to pay specific amounts on fixed or determinable dates? [GASB 10, par. 24 (GASB Cod. Sec. Po20 .120)]	—	—	—



	<u>YES</u>	<u>NO</u>	<u>N/A</u>
<p>o. If claims liabilities are discounted, does the pool use a rate that is determined by giving consideration to the pool's settlement rate for those liabilities and its investment yield rate? [GASB 10, par. 25 (GASB Cod. Sec. Po20 .121)]</p>	—	—	—
<p>p. If a pool purchases an annuity contract in the claimant's name to satisfy a claim liability and the likelihood that the pool will be required to make future payments on the claim is remote, has the annuity contract not been reported in, and the related liability removed from, the pool's balance sheet? [GASB 10, par. 26 (GASB Cod. Sec. Po20 .122)]</p>	—	—	—
<p>q. Have the aggregate outstanding amount of liabilities removed from the pool's financial statements been disclosed as long as those contingent liabilities are outstanding? [GASB 10, par. 26 (GASB Cod. Sec. Po20 .122)]</p>	—	—	—
<p>r. If it is later determined that the primary liability will revert back to the pool, has the liability been reinstated on the pool's balance sheet? (Annuity contracts used to settle claims for which the claimant has signed an agreement releasing the entity from further obligation and for which the likelihood that the pool will be required to make future payments on those claims is remote should not be included in this disclosure.) [GASB 10, par. 26 (GASB Cod. Sec. Po20 .122)]</p>	—	—	—
<p>s. If no accrual is made for an insured event, is disclosure made if there is at least a reasonable possibility that a loss or an additional loss may have been incurred? [GASB 10, par. 27 (GASB Cod. Sec. Po20 .123)]</p>	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
t. In "s." above, does the disclosure indicate the nature of the contingency and give an estimate of the possible loss or range of loss or state that such an estimate cannot be made? [GASB 10, par. 27 (GASB Cod. Sec. Po20 .123)]	---	---	---
u. If it is considered probable that an unreported claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable, has the appropriate disclosure been made? [GASB 10, par. 27 (GASB Cod. Sec. Po20 .123)]	---	---	---
v. Are commissions and other costs that are primarily related to contracts issued or renewed during the period in which the costs are incurred considered acquisition costs? [GASB 10, par. 28 (GASB Cod. Sec. Po20 .124)]	---	---	---
w. Are acquisition costs:			
(1) Capitalized and charged to expense in proportion to premium revenue recognized?	---	---	---
(2) Allocated by groupings of types of contracts consistent with the pool's manner of acquiring, servicing, and measuring the revenue and expense elements of its contracts?	---	---	---
(3) Classified as an asset if there remains an unamortized portion? [GASB 10, par. 29 (GASB Cod. Sec. Po20 .125)]	---	---	---
(4) If they are determined based on a percentage relationship of costs incurred to premiums from contracts issued or renewed for a specified period, are the percentage relationship and the period used, once determined, applied			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
to applicable unearned premiums throughout the contract period? [GASB 10, par. 30 (GASB Cod. Sec. Po20 .126)]	---	---	---
x. Are costs that are incurred during the period, other than those relating to claims (for example, investment management, general administration, and policy maintenance) that do not vary with and are not primarily related to the acquisition of new and renewal contracts, charged to expense as incurred? [GASB 10, par. 31 (GASB Cod. Sec. Po20 .127)]	---	---	---
y. For policyholder dividends:			
(1) Are they based on the experience of the pool or of a class of policies, rather than on the experience of an individual policyholder or pool participant?	---	---	---
(2) Are they accrued as dividends expense using an estimate of the amount to be paid?	---	---	---
(3) If used by policyholders to reduce premiums, are they reported as premium income?	---	---	---
(4) Do they include amounts returned to pool participants from excess premiums for catastrophe losses? [GASB 10, par. 32 (GASB Cod. Sec. Po20 .128)]	---	---	---
z. If experience refund arrangements exist under experience-rated contracts, is a separate liability accrued for these amounts, based on experience and the provisions of the contract? [GASB 10, par. 33 (GASB Cod. Sec. Po20 .129)]	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
aa. Are revenues reduced by amounts that are expected to be paid in the form of experience refunds? [GASB 10, par. 33 (GASB Cod. Sec. Po20 .129)]	—	—	—
bb. Are contracts grouped consistent with the pool's manner of acquiring, servicing, and measuring the revenue and expense elements of its contract to determine if a premium deficiency exists? [GASB 10, par. 34 (GASB Cod. Sec. Po20 .130)]	—	—	—
cc. Has a premium deficiency been recognized if the sum of expected claim costs and all expected claim adjustment expenses, expected dividends to policyholders or pool participants, unamortized acquisition costs, and incurred policy maintenance costs exceeds related unearned premiums? [GASB 10, par. 35 (GASB Cod. Sec. Po20 .131)]	—	—	—
dd. If a premium deficiency exists, have unamortized acquisition costs been expended to the extent of the deficiency? [GASB 10, par. 36 (GASB Cod. Sec. Po20 .132)]	—	—	—
ee. Are deficiencies resulting from risk-sharing pool participation contracts reported as revenue and assessment receivable at the time the pool determines that a deficiency is reasonably estimable? (provided the pool has an enforceable legal claim to the amounts and the collectibility is probable and reasonably estimable) [GASB 10, par. 36 (GASB Cod. Sec. Po20 .132)]	—	—	—
ff. For reinsurance:			
(1) Are amounts that are recoverable from reinsurers or excess insurers and that relate to paid claims and claim adjustment ex-			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
penses classified as assets and as reductions of expenses?	—	—	—
(2) Are estimated amounts recoverable from reinsurers that relate to the liabilities for unpaid claims and claim adjustment expenses deducted from those liabilities rather than reported as assets?	—	—	—
(3) Are unearned premiums on contracts ceded to a reinsurer by a pool netted with related premiums paid to but not yet earned by the reinsurer?	—	—	—
(4) Are receivables and payables from the same insurer, including amounts withheld, netted?	—	—	—
(5) Are premiums paid and recoveries on claims netted against related earned premiums and incurred claims costs, respectively, in the operating statement?	—	—	—
[GASB 10, par. 37 (GASB Cod. Sec. Po20 .133)]			
(6) Do proceeds that represent recovery of acquisition costs reduce applicable unamortized acquisition costs in such a manner that net acquisition costs are capitalized and charged to expense in proportion to net revenue recognized?	—	—	—
(7) If the pool has agreed to service all of the related ceded insurance contracts without reasonable compensation, has a liability been accrued for excess future servicing costs?	—	—	—
[GASB 10, par. 38 (GASB Cod. Sec. Po20 .134)]			
(8) To the extent it does not provide for indemnification of the pool by the reinsurer against loss or liability, is the premium paid less the premium to be retained			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
by the reinsurer accounted for as a deposit by the pool?	—	—	—
(9) Is a net credit resulting from the contract reported as a liability by the pool? [GASB 10, par. 39 (GASB Cod. Sec. Po20 .135)]	—	—	—
gg. Are bonds reported at amortized cost if the pool has both the ability and the intent to hold the bonds until maturity and there is no decline in the market value of the bonds other than a temporary decline? [GASB 10, par. 40 (GASB Cod. Sec. Po20 .136)]	—	—	—
hh. If the pool is a trader in bonds and does not intend to hold the bonds until maturity, are the bonds reported at market, and are temporary changes in the market value of the bonds recognized as unrealized gains or losses? [GASB 10, par. 40 (GASB Cod. Sec. Po20 .136)]	—	—	—
ii. Are common and nonredeemable preferred stocks reported at market, and temporary changes in market value of those securities recognized as unrealized gains or losses? [GASB 10, par. 41 (GASB Cod. Sec. Po20 .137)]	—	—	—
jj. Are preferred stocks that by their provisions must be redeemed by the issuer reported at amortized cost if the pool has both the ability and intent to hold the stocks until redemption and there is no decline in the market value of the stocks other than a temporary decline? [GASB 10, par. 41 (GASB Cod. Sec. Po20 .137)]	—	—	—
kk. If the pool does not have the ability or intent to hold preferred stocks to maturity, are they reported like investments in common and nonredeem-			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
able preferred stocks? (See "ii." above.) [GASB 10, par. 41 (GASB Cod. Sec. Po20 .137)]	—	—	—
11. Are mortgage loans reported at outstanding principal balances if acquired at par value, or at amortized cost if purchased at a discount or premium, with an allowance for estimated uncollectible amounts? [GASB 10, par. 42 (GASB Cod. Sec. Po20 .138)]	—	—	—
mm. For "11." above, are amortization and other related charges or credits charged or credited to investment income? [GASB 10, par. 42 (GASB Cod. Sec. Po20 .138)]	—	—	—
nn. Are changes in the allowance for estimated uncollectible amounts relating to mortgage loans included in realized gains and losses? [GASB 10, par. 42 (GASB Cod. Sec. Po20.138)]	—	—	—
oo. Are real estate investments reported at cost less accumulated depreciation and any allowance for impairment in value? [GASB 10, par. 43 (GASB Cod. Sec. Po20 .139)]	—	—	—
pp. For "oo." above, are depreciation and other related charges or credits charged or credited to investment income? [GASB 10, par. 43 (GASB Cod. Sec. Po20 .139)]	—	—	—
qq. Are changes in the allowance for any impairment in value relating to real estate investments included in realized gains and losses? [GASB 10, par. 43 (GASB Cod. Sec. Po20 .139)]	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
rr. Are all other investments reported at cost plus or minus any unamortized premium or discount? [GASB 10, par. 44 (GASB Cod. Sec. Po20 .140)]	---	---	---
ss. If the market value of such investments declines below its carrying amount and it is probable a loss will be realized in the future, is an estimated loss reported as a realized loss in the pool's operating statement and as a reduction of the carrying amount of the investment? [GASB 10, par. 44 (GASB Cod. Sec. Po20 .140)]	---	---	---
tt. Are loan origination and commitment fees and direct loan origination costs accounted as prescribed in FASB 91? [GASB 10, par. 45 (GASB Cod. Sec. Po20 .141)]	---	---	---
uu. Are the following requirements of FASB Statement 91 met:			
(1) Are loan origination fees recognized over the life of the related loan as an adjustment of yield?	---	---	---
(2) Are certain direct loan origination costs recognized over the life of the related loan as a reduction of the loan's yield?	---	---	---
(3) Are all loan commitment fees deferred except for certain retrospectively determined fees?	---	---	---
(4) Are commitment fees meeting specified criteria recognized over the loan commitment period and all other commitment fees recognized as an adjustment of yield over the related loan's life or, if the commitment expires unexercised, recognized in income on expiration of the commitment?	---	---	---



YES   NO   N/A

(5) Are loan fees, certain direct loan origination costs, and purchase premiums and discounts on loans recognized as an adjustment of yield generally by the interest method based on the contractual terms of the loan? (Prepayments may be anticipated in certain specified circumstances.)

—   —   —

[GASB 10, par. 45 (GASB Cod. Sec. Po20 .141)]

vv. For realized gains and losses on all investments (except those that are accounted for as foreign currency or futures contracts hedges):

a. Are they recognized in the operating statement as a component of other income?

—   —   —

b. Is the amount of gains and losses separately disclosed either by presenting it as a separate item in the operating statement or disclosing it in the notes to financial statements?

—   —   —

c. Are they not deferred, either directly or indirectly?

—   —   —

d. Are unrealized investment gains and losses reported as a separate component of equity?

—   —   —

e. Are unrealized gains or losses on common stocks, preferred stocks, or publicly traded bonds not recognized in income until the sale, maturity, or other disposition of the investment?

—   —   —

[GASB 10, par. 46 (GASB Cod. Sec. Po20 .142)]

ww. If a decline in the value of common, preferred stock, publicly traded bond, or other investment below its cost or amortized cost is considered to be other than temporary, is the investment reduced to its net realiz-

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
able value, which becomes the new cost basis? [GASB 10, par. 47 (GASB Cod. Sec. Po20 .143)]	---	---	---
xx. In "ww." above, is the amount of the reduction reported as a realized loss? [GASB 10, par. 47 (GASB Cod. Sec. Po20 .143)]	---	---	---
yy. In "ww." above, is a recovery from the new cost basis recognized as a realized gain only at the sale, maturity, or other disposition of the investment? [GASB 10, par. 47 (GASB Cod. Sec. Po20 .143)]	---	---	---
zz. For real estate used in the pool's operations, is it classified either as an investment or as real estate used in the pool's operations, depending on its predominant use? [GASB 10, par. 48 (GASB Cod. Sec. Po20 .144)]	---	---	---
aaa. Are depreciation and other real estate operating costs classified as investment expenses or operating expenses consistent with the balance sheet classification of the related asset? [GASB 10, par. 48 (GASB Cod. Sec. Po20 .144)]	---	---	---
bbb. Is imputed investment income and rental expense not recognized for real estate used in the pool's operations? [GASB 10, par. 48 (GASB Cod. Sec. Po20 .144)]	---	---	---
ccc. Do public entity risk pools make the following disclosures:			
(1) A description of the risk transfer or pooling agreement, including the rights and responsibilities of the pool participants?	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(2) Provide a brief description of the number and types of entities participating in the pool?	—	—	—
(3) The basis for estimating the liabilities for unpaid claims and claim adjustment expenses?	—	—	—
(4) State that the liabilities are based on the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors?	—	—	—
(5) The nature of acquisition costs capitalized, the method of amortizing those costs, and the amount of those costs amortized for the period?	—	—	—
(6) The face amount and carrying amount of liabilities for unpaid claims and claim adjustment expenses that are presented at present value in the financial statements and the range of annual interest rates used to discount those liabilities?	—	—	—
(7) Whether the pool considers anticipated investment income in determining if a premium deficiency exists?	—	—	—
(8) The nature and significance of excess insurance or reinsurance transactions to the pool's operations, including reinsurance premiums ceded, and estimated amounts that are recoverable from reinsurers and that reduce the liabilities as of the balance sheet date for unpaid claim and claim adjustment expenses?	—	—	—
(9) A reconciliation of total claims liabilities, including an analysis of changes in aggregate liabilities for claims and claim adjustment expenses for the current fiscal year and the prior			

YES   NO   N/A

fiscal year in the following tabular format:

- |  |       |       |       |
|--|-------|-------|-------|
| (a) Amount of liabilities for unpaid claims and claim adjustment expenses at the beginning of each fiscal year?  | _____ | _____ | _____ |
| (b) or incurred claims and claim adjustment expenses:  |       |       |       |
| (1) A provision for insured events of the current fiscal year?   | _____ | _____ | _____ |
| (2) Increase (decrease) in the provision for insured events of prior fiscal years?   | _____ | _____ | _____ |
| (c) For payments:  |       |       |       |
| (1) Claims and claim adjustment expenses attributable to insured events of the current fiscal year?  | _____ | _____ | _____ |
| (2) Claims and claim adjustment expenses attributable to insured events of prior fiscal years?   | _____ | _____ | _____ |
| (3) Other items and provide all explanation of each material item?   | _____ | _____ | _____ |
| (4) Amount of liabilities for unpaid claims and claim adjustment expenses at the end of each fiscal year?  | _____ | _____ | _____ |
| (10) The aggregate outstanding amount of liabilities for which annuity contracts have been purchased from third parties in the claimants' names and the related liabilities that have been removed from the balance sheet? (Annuity contracts used to settle claims for which the claimant |       |       |       |

YES   NO   N/A

has signed an agreement releasing the entity from further obligation and for which the likelihood that the pool will be required to make future payments on those claims is remote should not be included in this disclosure.)

[GASB 10, par. 49 (GASB Cod. Sec. Po20.145)]

— — —

ddd. Is the following revenue and claims development information included as required supplementary information immediately after the notes to financial statements in pool separate financial reports: (Pools that are included as part of a combined general government reporting entity and that do not issue separate financial reports should present the information as statistical information in the combined entity's comprehensive annual financial report.)

— — —

(1) A table that presents the following information:

(a) Amounts of reported premium or required contribution revenue (net of excess reinsurance) and reported investment revenue for each of the past ten fiscal years including the latest fiscal year?

— — —

(b) Amounts of reported unallocated claim adjustment expenses and reported other costs for each of the past ten fiscal years including the latest fiscal year?

— — —

(c) Total amount of incurred claims and allocated claim adjustment expenses (both paid and accrued and net of loss assumed by excess or reinsurers) as originally reported at the end of each of the past ten policy years including the latest policy

YES   NO   N/A

year? (Amounts should be limited to provisions for claims resulting from events that triggered coverage under the policy or participation contract in that year.) (policy-year basis)

\_\_\_   \_\_\_   \_\_\_

(d) the cumulative amount paid as of the end of the policy year and each succeeding year for each of the incurred claims and allocated expense amounts presented in (c) above?

\_\_\_   \_\_\_   \_\_\_

(e) The reestimated amounts for incurred claims and claim adjustment expenses as of the end of each succeeding year for each of the policy years presented in (c) above?

\_\_\_   \_\_\_   \_\_\_

(f) The change in incurred claims and claim adjustment expenses from the original estimate, based on the difference between the latest reestimated amount presented in (e) above for each of the policy years and the originally established incurred claims and claim adjustment amounts reported in (c)?

\_\_\_   \_\_\_   \_\_\_

(2) In addition to the reconciliation of total claims liabilities ["0. cc.(9)" above], a reconciliation of claims liabilities by type of contract, including an analysis of changes in liabilities for claims and claim adjustment expenses for the current fiscal year and the prior year, in the same tabular format required by "0. ccc.(9)" above?

\_\_\_   \_\_\_   \_\_\_

[GASB 10, par. 50 (GASB Cod. Sec. Po20 .146)]

eee. During the transition period when ten years of information about claims liabilities and claim adjustment expenses may not be available, is all

YES   NO   N/A

information in "O.ddd.(1)" above, should be presented only for as many years as the information is available?

[GASB 10, par. 50 (GASB Cod. Sec. Po20.146)]

— — —

fff. If changes in a pool's loss, expense, reinsurance, excess insurance, or other transactions materially affect pool revenues, expenses, or liabilities in a manner not fairly disclosed or presented in the tables above, does the pool expand these disclosures to show additional detail (such as gross, ceded, and net revenues and liabilities or separate information for each type of contract) to keep the schedules from being misleading or to keep trends from becoming obscured?

[GASB 10, par. 50 (GASB Cod. Sec. Po20.146)]

— — —

ggg. For pools not involving transfer or pooling of risk:

(1) Does the operating statement report claims-servicing revenue and administrative costs?

— — —

(2) Are amounts collected or due from pool participants and paid or to be paid to settle claims reported as a net asset or liability on an accrual basis, as appropriate?

— — —

[GASB 10, par. 51 (GASB Cod. Sec. Po20.147)]

2. Entities Other Than Pools—General Principles

a. If an internal service fund is used, if risk of loss or a portion of risk of loss has not been transferred to an unrelated third party, is an estimated loss from a claim reported as an expenditure/expense and as a liability if both of the following conditions are met:

YES   NO   N/A

- (1) Information available before the financial statements are issued indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements? It is implicit in this condition that it must be probable that one or more future events will also occur confirming the fact of the loss.      \_\_\_\_\_
- (2) The amount of loss can be reasonably estimated?  
[GASB 10, par. 53 (GASB Cod. Sec. C50 .110)]      \_\_\_\_\_
- b. If the conditions in "0.2.a.(1)" above are met, and the reasonable estimate of the loss is a range ["0.2.a.(2)" is met], is an amount accrued for the loss?  
[GASB 10, par. 54 (GASB Cod. Sec. C50 .111)]      \_\_\_\_\_
- c. If an amount in the range appears to be a better estimate than any other amount within the range, is that amount accrued?  
[GASB 10, par. 54 (GASB Cod. Sec. C50 .111)]      \_\_\_\_\_
- d. If no amount within the range is a better estimate than any other amount is the minimum amount in the range accrued?  
[GASB 10, par. 54 (GASB Cod. Sec. C50 .111)]      \_\_\_\_\_
- e. If an incurred but not reported loss can be reasonably estimated and it is probable that a claim will be asserted, is the expenditure/expense recognized?  
[GASB 10, par. 56 (GASB Cod. Sec. C50 .113)]      \_\_\_\_\_



	<u>YES</u>	<u>NO</u>	<u>N/A</u>
f. Are claims liabilities based on the estimated ultimate cost of settling the claims using past experience adjusted for current trends and any other factors that would modify past experience? [GASB 10, par. 57 (GASB Cod. Sec. C50 .114)]	—	—	—
g. Are estimates of incurred but not reported claims based on historical experience? [GASB 10, par. 57 (GASB Cod. Sec. C50 .114)]	—	—	—
h. When historical experience is used, are the outstanding claims stratified by amount and type of claim, and the strata sufficiently refined to assure that the estimation is reasonable? [GASB 10, par. 57 (GASB Cod. Sec. C50 .114)]	—	—	—
i. Is disclosure of a loss contingency made when there is at least a reasonable possibility that a loss or an additional loss may have been incurred? [GASB 10, par. 58 (GASB Cod. Sec. C50 .115)]	—	—	—
j. For "0.2.i" above, does the disclosure indicate the nature of the contingency and give an estimate of the possible loss or range of loss or state that such an estimate cannot be made? [GASB 10, par. 58 (GASB Cod. Sec. C50 .115)]	—	—	—
k. Are claims and liabilities associated with structured settlements discounted if they represent contractual obligations to pay money on fixed determinable dates? [GASB 10, par. 59 (GASB Cod. Sec. C50 .116)]	—	—	—
l. If claims and liabilities are discounted, is a rate used that is determined by giving consideration to such factors as the entity's settlement			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
rate for those liabilities and its investment yield rate? [GASB 10, par. 60 (GASB Cod. Sec. C50 .117)]	—	—	—
m. Has the annuity contract and the related liability been removed from the entity's balance sheet if the entity purchases an annuity contract in the claimant's name to satisfy a claim liability and the likelihood that the entity will be required to make future payments on the claim is remote? [GASB 10, par. 61 (GASB Cod. Sec. C50 .118)]	—	—	—
n. In "O.2.m." above, has the aggregate outstanding amount of liabilities removed from the entity's financial statements been disclosed as long as those contingent liabilities are outstanding? [GASB 10, par. 61 (GASB Cod. Sec. C50 .118)]	—	—	—
o. In "O.2.m." above, if it is determined that the primary liability will revert back to the entity, has the liability been reinstated on the entity's balance sheet? [GASB 10, par. 61 (GASB Cod. Sec. C50 .118)]	—	—	—
p. Are investments associated with an entity's risk financing activities that are maintained separately from other investments of the entity valued in the same manner as all other investments reported in that fund type? [GASB 10, par. 62 (GASB Cod. Sec. C50 .119)]	—	—	—
q. If a single fund is used to account for an entity's risk financing activities, is that fund either a general fund or an internal service fund? [GASB 10, par. 63 (GASB Cod. Sec. C50 .120)]	—	—	—

YES   NO   N/A

3. Risk Retention by Entities Other Than Pools

a. If the entity uses the general fund to account for its risk financing activities:

(1) Are claims liabilities and expenditures/expenses recognized in accordance with "O.2.a.-h." above?      \_\_\_    \_\_\_    \_\_\_

(2) Are claims liabilities reduced by amounts expected to be recovered through excess insurance?      \_\_\_    \_\_\_    \_\_\_

(3) Are claim amounts that are probable but not reasonably estimable disclosed in accordance with "O.2.i.-j." above?      \_\_\_    \_\_\_    \_\_\_

(4) Are disclosures made about losses that are reasonably possible?      \_\_\_    \_\_\_    \_\_\_

(5) If the total amount charged to other funds exceeds total expenditures and liabilities determined in accordance with "2.a.-h." above, are the excess amounts reported as operating transfers?      \_\_\_    \_\_\_    \_\_\_

[GASB 10, par. 64 (GASB Cod. Sec. C50 .121)]

b. If an entity uses an internal service fund to account for its risk financing activities, does the fund recognize claims expenses and liabilities in accordance with "O.2.a.-h." above?      \_\_\_    \_\_\_    \_\_\_

[GASB 10, par. 65 (GASB Cod. Sec. C50 .122)]

c. In "O.3.b." above, are claims expenses and liabilities reduced by amounts expected to be recovered through excess insurance?      \_\_\_    \_\_\_    \_\_\_

[GASB 10, par. 65 (GASB Cod. Sec. C50 .122)]

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
d. In "0.3.b." above, are claim amounts that are probable but not reasonably estimable disclosed in accordance with "0.2.i." and "0.2.j." above? [GASB 10, par. 65 (GASB Cod. Sec. C50 .122)]	—	—	—
e. Were the following conditions met when considering the basis appropriate to charge other funds of the entity:			
(1) The total charge by the internal service fund to the other funds for the period is calculated in accordance with "0.2.a.-h." above?	—	—	—
(2) The total charge by the internal service fund to the other funds is based on an actuarial method or historical cost information and adjusted over a reasonable period of time so that internal service fund revenues and expenses are approximately equal?	—	—	—
(3) In addition to item (2) above, the total charge by the internal service fund to the other funds may also include a reasonable provision for expected future catastrophe losses? [GASB 10, par. 66 (GASB Cod. Sec. C50 .123)]	—	—	—
f. Were charges made in accordance with the foregoing provisions recognized as revenue by the internal service fund and as expenditures/expenses by the other funds of the entity? [GASB 10, par. 67 (GASB Cod. Sec. C50 .124)]	—	—	—
g. Is a deficit fund balance of the internal service fund disclosed in the notes to financial statements? [GASB 10, par. 67 (GASB Cod. Sec. C50 .124)]	—	—	—
h. Are retained earnings in the internal service fund resulting from the application of "0.3.c." above, reported as equity designated for future catas-			

YES   NO   N/A

trophe losses in the notes to the financial statements?

[GASB 10, par. 67 (GASB Cod. Sec. C50 .124)]

\_\_\_   \_\_\_   \_\_\_

- i. If the charge by the internal service fund to the other funds is greater than the amount resulting from the application of "O.3.e." above, is the excess reported in both the internal service fund and the other funds as an operating transfer?

[GASB 10, par. 68 (GASB Cod. Sec. C50 .125)]

\_\_\_   \_\_\_   \_\_\_

- j. If the charge by the internal service fund to the other funds fails to recover the full cost of claims over a reasonable period of time, is any deficit fund balance in the internal service fund charged back to the other funds and reported as an expenditure/expense of those funds?

[GASB 10, par. 68 (GASB Cod. Sec. C50 .125)]

\_\_\_   \_\_\_   \_\_\_

4. Entities Participating in Public Entity Risk Pools With Transfer or Pooling of Risk

- a. In a pool in which there is a transfer or pooling (sharing) of risks among the participants of that pool, does the entity report its premium or required contribution as insurance expenditure/expense?

[GASB 10, par. 69 (GASB Cod. Sec. C50 .126)]

\_\_\_   \_\_\_   \_\_\_

- b. If in "O.4.a." above, the pooling agreement permits the pool to make additional assessments to its members, does the entity consider the likelihood of additional assessments and report an additional expenditure/expense and a liability if an assessment is probable and can be reasonably estimated?

[GASB 10, par. 69 (GASB Cod. Sec. C50 .126)]

\_\_\_   \_\_\_   \_\_\_

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
c. For "0.4.a." above, are assessment amounts that are probable but not reasonably estimable disclosed in accordance with "0.2.i. and j." above? [GASB 10, par. 69 (GASB Cod. Sec. C50 .126)]	---	---	---
d. If it appears that the pool will not be able to meet its obligations and it is probable that the entity will be required to pay its own obligations if the pool fails, is the amount of those obligations reported as an expenditure/expense and as a liability if they can be reasonably estimated? [GASB 10, par. 70 (GASB Cod. Sec. C50 .127)]	---	---	---
5. <u>Entities Participating in Public Entity Risk Pools Without Transfer or Pooling of Risk</u>			
a. If the entity contracts with other entities to service its uninsured claims and it participates in a pool in which there is not transfer of risk to the pool or pooling of risk with other pool participants, does it recognize and measure its claims liabilities and related expenditures/expenses in accordance with "0.2.a.-j." above? [GASB 10, par. 71 (GASB Cod. Sec. C50 .128)]	---	---	---
b. In "0.5.a." above, are payments to the pool reported either as deposits or as reductions of the claim liability, as appropriate? [GASB 10, par. 71 (GASB Cod. Sec. C50 .128)]	---	---	---
6. <u>Entities Other Than Pools — Insurance-Related Transactions</u>			
a. Under a claims-made policy did the entity account for the estimated cost of those claims and incidents not reported to the insurer in accordance with "0.2.a.-j." above? [GASB 10, par. 72 (GASB Cod. Sec. C50 .129)]	---	---	---

YES   NO   N/A

- b. Is the entity with a retrospectively rated policy or contract whose ultimate premium or required contribution is based primarily on the entity's loss experience accounting for the minimum premium as expenditure/expense over the period of coverage under the policy and does it accrue estimated losses from reported and unreported claims in excess of the minimum premium as indicated in "O.2.a.-h." above?  
[GASB 10, par. 73 (GASB Cod. Sec. C50 .130)]
- \_\_\_\_\_
- c. In "O.6.b." above, if the entity cannot estimate losses from reported and unreported claims, does the entity disclose the existing contingency in the notes to the financial statements?  
[GASB 10, par. 73 (GASB Cod. Sec. C50 .130)]
- \_\_\_\_\_
- d. Does the entity if it is insured under a retrospectively rated policy or contract with premiums or required contributions based primarily on the experience of a group of entities amortize the initial premium to expenditure/expense pro rata over the contract term?  
[GASB 10, par. 74 (GASB Cod. Sec. C50 .131)]
- \_\_\_\_\_
- e. In "O.6.d." above, does the entity also accrue additional premiums or refunds on the basis of the group's experience to date, which should include provisions for the ultimate cost of reported and unreported claims before the financial statement date, whether reported or unreported?  
[GASB 10, par. 74 (GASB Cod. Sec. C50 .131)]
- \_\_\_\_\_
- f. Does the entity disclose (a) that it is insured under a retrospectively rated policy and (b) that premiums are accrued based on the ultimate cost of

YES   NO   N/A

the experience to date of a group of entities?

[GASB 10, par. 74 (GASB Cod. Sec. C50 .131)]

\_\_\_   \_\_\_   \_\_\_

- g. In "O.6.e." above, if the entity cannot estimate losses from reported or unreported claims as indicated in "O.2.a.-h." above, does it disclose the existing contingency in the notes to financial statements in accordance with "O.2.i." and "O.2.j." above?

[GASB 10, par. 74 (GASB Cod. Sec. C50 .131)]

\_\_\_   \_\_\_   \_\_\_

- h. If an entity receives or is entitled to receive a policyholder dividend or return of contribution related to its insurance or pool participation contract, is that dividend recognized as a reduction of expenditures/expenses at the time the dividend is declared?

[GASB 10, par. 75 (GASB Cod. Sec. C50 .132)]

\_\_\_   \_\_\_   \_\_\_

7. Entities Providing Claims Servicing or Insurance Coverage to Others

- a. If an entity provides insurance or risk management coverage separate from its own risk management activities to individuals or organizations outside the government reporting entity and there is material transfer or pooling of risk among the participants, is that activity accounted for as a public entity risk pool?

[GASB 10, par. 76 (GASB Cod. Sec. C50 .133)]

\_\_\_   \_\_\_   \_\_\_

- b. If the entity provides risk transfer or pooling coverage combined with its own risk management activities to individuals or organizations outside its reporting entity, are those activities reported in the general fund or an internal service fund only as long as the entity is the predominant participant in that fund?

[GASB 10, par. 76 (GASB Cod. Sec. C50 .133)]

\_\_\_   \_\_\_   \_\_\_



YES   NO   N/A

- c. If the entity is not the predominant participant in the fund, are the combined activities reported as a public entity risk pool, using an enterprise fund and the accounting and reporting requirements in "O.1.b.-fff." above? [GASB 10, par. 76 (GASB Cod. Sec. C50 .133)]      \_\_\_\_\_
- d. If an entity performs claims-servicing functions, not insurance functions, for individuals or organizations that are not part of the governmental reporting entity, are amounts collected or due from those individuals and organizations and paid or to be paid to settle claims reported as a net asset or liability on an accrual basis, as appropriate? [GASB 10, par. 76 (GASB Cod. Sec. C50 .133)]      \_\_\_\_\_
- e. In "O.7.d." above, does the operating statement report claims-servicing revenue and administrative costs as discussed in "O.1.ggg." above? [GASB 10, par. 76 (GASB Cod. Sec. C50 .133)]      \_\_\_\_\_

8. Entities Other Than Pools—Disclosures

- a. Is the following information disclosed in the notes to the financial statements, if applicable for entities other than pools:
- (1) A description of the risks of loss to which the entity is exposed and the way(s) in which those risks of loss are handled (for example, purchase of commercial insurance, participation in a public entity risk pool, risk retention)?      \_\_\_\_\_
- (2) A description of significant reductions in insurance coverage from coverage in the prior year by major categories of risk? Also indicate whether the amount of settlements exceeded insurance

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
coverage for each of the past three fiscal years.	_____	_____	_____
(3) If the entity participates in a risk pool, a description of the nature of the participation, including the rights and the responsibilities of both the entity and the pool?	_____	_____	_____
(4) If an entity retains the risk of loss:			
(a) The basis for estimating the liabilities for unpaid claims?	_____	_____	_____
(b) The carrying amount of liabilities for unpaid claims that are presented at present value in the financial statements and the range of discount rates used to discount those liabilities?	_____	_____	_____
(c) The aggregate outstanding amount of claims liabilities for which annuity contracts have been purchased in the claimants' names and for which the related liabilities have been removed from the balance sheet? (Annuity contracts used to settle claims for which the claimant has signed an agreement releasing the entity from further obligation and for which the likelihood that the pool will be required to make future payments on those claims is remote should not be included in this disclosure.)	_____	_____	_____
(d) A reconciliation of changes in the aggregate liabilities for claims for the current fiscal year and the prior fiscal year, in the following tabular format:			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(1) Amount of claims liabilities at the beginning of each fiscal year?	---	---	---
(2) Incurred claims, representing the total of a provision for events of the current fiscal year and any change (increase or decrease) in the provision for events of prior fiscal years?	---	---	---
(3) Payments on claims attributable to events of both the current fiscal year and prior fiscal years?	---	---	---
(4) Other? (Provide an explanation of each material item.)	---	---	---
(5) Amount of claims liabilities at the end of each fiscal year? [GASB 10, par. 77 (GASB Cod. Sec. C50.134)]	---	---	---
b. If the disclosures required by GASB 10 are misleading in the aggregate is an additional or separate presentation made by fund or fund type? [GASB 10, par. 78 (GASB Cod. Sec. C50.135)]	---	---	---
c. If a pool included in the oversight entity's combined financial report issues its own separate report, does the combined report emphasize oversight entity disclosures about its participation in a pool and provide reference to the separate report of the pool? [GASB 10, par. 78 (GASB Cod. Sec. C50.135)]	---	---	---
d. Do component units that participate in their oversight entity's risk management internal service fund make the disclosures required by "0.8.a.(1)"			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
above in their separately issued component unit financial statements? [GASB 10, par. 79 (GASB Cod. Sec. C50 .136)]	—	—	—
e. Does the component unit also disclose the fact that the unit participates in the fund, include a description of the nature of that participation, and state the rights and responsibilities of both the unit and the oversight entity? [GASB 10, par. 79 (GASB Cod. Sec. C50 .136)]	—	—	—
f. If disclosure is deemed necessary due to a contingency from a subsequent event, does the financial statement indicate the nature of the loss or loss contingency and give an estimate of the amount or range of loss or possible loss or state that such estimate cannot be made? [GASB 10, par. 80 (GASB Cod. Sec. C50 .137)]	—	—	—

II. COMBINED BALANCE SHEET

A. Titles, References and Content

1. Is a combined balance sheet presented for all fund types and account groups? [GASB 1, Sec. 2200.108 (GASB Cod. Sec. 2200.108)]	—	—	—
2. Does the combined balance sheet have separate columns for each fund type and account group? [GASB 1, Sec. 2200.108 (GASB Cod. Sec. 2200.108)]	—	—	—
3. Are the separate columns for each fund and/or account group properly captioned? [GASB 1, Sec. 2200.108 (GASB Cod. Sec. 2200.108)]	—	—	—
4. Have special assessment funds been eliminated? [GASB 6, par. 13 (GASB Cod. Sec. S40 .113)]	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
5. Are long-term debt and fixed assets only reported in account groups, fiduciary or proprietary fund types? [GASB 1, Sec. 1400.102-.106 (GASB Cod. Sec. 1400.102-.106); GASB 1, Sec. 1500.102-.103 (GASB Cod. Sec. 1500.102-.103)]	---	---	---
<b>B. Cash and Investments</b>			
1. Are cash and investments segregated into individual funds? [ASLGU, Ch. 7, par. 7]	---	---	---
2. If cash and investments are restricted to comply with legal or contractual requirements, are these amounts segregated? [ARB 43, Chap. 3A, par. 6 (AC BO5.107); ASLGU, Ch. 7, par. 7]	---	---	---
3. Are restrictions on cash and investments appropriately disclosed? [SFAS 5, pars. 18-19 (AC C59.120)]	---	---	---
<b>4. Pooled Accounts</b>			
a. If cash and investments are maintained in pooled accounts and a particular fund overdraws its share, is the overdraft reported as an interfund payable or receivable? [ASLGU, Chap. 7, par. 8]	---	---	---
b. Is disclosure made of the method used to allocate income from investment or pooled cash? [ASLGU, Chap. 7, par. 9]	---	---	---
5. Was the need to record losses due to a permanent decline in value considered? [ASLGU, Chap. 7, par. 9]	---	---	---
6. Are material dollar amounts of held checks (checks on the bank reconciliation but not released until after the balance sheet date) reclassified as accounts payable? [TPA, Vol. 1, Sec. 2110.02]	---	---	---
<b>7. Cost and Market Value</b>			
a. As of the date of each balance sheet presented, with respect to marketable			

YES   NO   N/A

securities owned, was disclosure made of the aggregate cost and market value (each segregated between current and noncurrent portfolios when a classified balance sheet is presented) with identification as to which is the carrying amount?

[SFAS 12, par. 12 (I89.106)]

\_\_\_ \_\_\_ \_\_\_

b. Were the following disclosed as of the date of the latest balance sheet presented, segregated between current and noncurrent portfolios when a classified balance sheet is presented:

(1) Gross unrealized gains representing the excess of market value over cost for all marketable equity securities in the portfolio having such an excess?

\_\_\_ \_\_\_ \_\_\_

(2) Gross unrealized losses representing the excess of cost over market value for all marketable equity securities in the portfolio having such an excess?

\_\_\_ \_\_\_ \_\_\_

[SFAS 12, par. 12 (AC I89.106b)]

c. For each period for which an operating statement is presented, were the following disclosures made:

(1) Net realized gain or loss included in the determination of income?

\_\_\_ \_\_\_ \_\_\_

(2) The basis on which cost was determined in computing realized gain or loss (that is, average cost or other method used)?

\_\_\_ \_\_\_ \_\_\_

(3) The change in the valuation allowance(s) that has been included in the equity section of the balance sheet during the period and, when a classified balance sheet is presented, the amount of such change included in the determination of income?

\_\_\_ \_\_\_ \_\_\_

[SFAS 12, par. 12 (AC I89.106c)]

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
d. Where marketable securities are included in noncurrent assets in a classified balance sheet, is the valuation allowance shown separately? [SFAS 12, par. 11 (AC I89.105)]	---	---	---
e. Where marketable securities are included in an unclassified balance sheet for proprietary fund types, is the valuation allowance shown separately? [SFAS 12, par. 11 (AC I89.105)]	---	---	---
<b>8. For Investments Including Repurchase Agreements</b>			
a. Has disclosure been made in the notes to financial statements of the types of investments authorized by legal or contractual provisions? [GASB 3, par. 65 (GASB Cod. Sec. I50 .161)]	---	---	---
b. Is disclosure made of significant violations during the period of legal and/or contractual provisions for deposits and investments? [GASB 3, par. 66 (GASB Cod. Sec. I50 .162)]	---	---	---
c. If bank balances of deposits as of the balance sheet date are entirely insured or collateralized with securities held by the entity or by its agent in the entity's name, has this been disclosed? [GASB 3, par. 67 (GASB Cod. Sec. I50 .163)]	---	---	---
d. If the disclosure called for by paragraph 7c above was not made, has the following information been disclosed:			
(1) Carrying amounts of total deposits if not separately displayed on the balance sheet?	---	---	---
(2) The total bank balance classified in these three categories of credit risk:			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(a) Insured or collateralized with securities held by the entity or by its agent in the entity's name.	---	---	---
(b) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.	---	---	---
(c) Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the entity's name)	---	---	---
[GASB 3, par. 67 (GASB Cod. Sec. I50 .163)]			
e. Are the carrying amount and market value of investments (including repurchase agreements) as of the balance sheet date disclosed in total and for each type of investment?	---	---	---
f. Is the disclosure of the carrying amounts of investments broken down into the following three categories of credit risk:			
(1) Insured or registered or securities held by the entity or its agent in the entity's name?	---	---	---
(2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name?	---	---	---
(3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name?	---	---	---
[GASB 3, par. 68, (GASB Cod. Sec. I50 .164)]			
g. If unrealized investment losses in one or more component units or funds may not be apparent because of unrealized investment gains in the remaining			



	<u>YES</u>	<u>NO</u>	<u>N/A</u>
<p>funds, are the carrying amounts and market value of that unit's or fund's total investments disclosed?  [GASB 3, par. 71 (GASB Cod. Sec. I50 .167)]</p>	---	---	---
<p>h. If there are outstanding commitments as of the balance sheet date to resell securities under yield maintenance repurchase agreements, have the market value and carrying amount as of the balance sheet date as well as a description of the terms of the agreement been disclosed?  [GASB 3, par. 72, (GASB Cod. Sec. I50 .168)]</p>	---	---	---
<p>i. If uncollateralized deposits or uninsured, unregistered securities held by the counterparty, or by the trust department or agent not in the entity's name significantly exceed the amounts in those categories as of the balance sheet date, is that fact disclosed?  [GASB 3, par. 73 (GASB Cod. Sec. I50 .169)]</p>	---	---	---
<p>j. Does the entity disclose the types of investments made during the period but not owned as of the balance sheet date?  [GASB 3, par. 74 (GASB Cod. Sec. I50 .170)]</p>	---	---	---
<p>k. Does the entity disclose losses recognized during the period resulting from default by counterparties to deposit or investment transactions and amounts recovered from prior-period losses if these are not shown separately on the operating statements?  [GASB 3, par. 75 (GASB Cod. Sec. I50 .171)]</p>	---	---	---
<p>l. In connection with reverse repurchase agreements indicate if the following is disclosed:</p> <p>(1) For reverse repurchase agreements, other than yield maintenance agreements, which are outstanding</p>			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
as of the balance sheet date, has the credit risk related to the agreements been disclosed? [GASB 3, par. 78 (GASB Cod. Sec. R10.110)]	---	---	---
(2) Was disclosure made for commitments as of the balance sheet date to repurchase securities under yield maintenance agreements including the market value as of the balance sheet date of the securities to be repurchased and a description of the terms of the agreements? [GASB 3, par. 79 (GASB Cod. Sec. R10.111)]	---	---	---
(3) Is disclosure made for losses recognized during the period due to default by counterparties to reverse repurchase agreements and amounts recovered from prior-period losses if not shown separately on the operating statement? [GASB 3, par. 80 (GASB Cod. Sec. R10.112)]	---	---	---

C. Notes and Accounts Receivable

1. Are notes or accounts receivable due from affiliated enterprises disclosed separately? [ARB 43, Ch. 1A, par. 5 (AC R36.105)]	---	---	---
2. If a note is noninterest bearing or has an inappropriate stated interest rate:			
a. Is the discount or premium presented as a deduction from or addition to the face amount of the note? [APB 21, par. 16 (AC I69.109)]	---	---	---
b. Does the disclosure include the effective interest rate and face amount of the note? [APB 21, par. 16 (AC I69.109)]	---	---	---
c. Is amortization of discount or premium reported as interest expense in the operating statement? [APB 21, par. 16 (AC I69.109)]	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
3. Have related receivables and payables between what were previously separately reported governmental units, which are now included as component units of a reporting entity, been reclassified as amounts due to and due from other funds? [GASB 1, Sec. 2600.112 (GASB Cod. Sec. 2600.112)]	—	—	—
4. If transactions between component units having different fiscal years result in inconsistencies in amounts reported as due to/due from, transfer to/transfer from etc., are the nature and amounts of such transactions disclosed in the notes to the financial statements? [GASB 1, Sec. 2600.114 (GASB Cod. Sec. 2600.114)]	—	—	—
5. Are the amounts due to one fund from other funds, as well as the amounts owed to other funds, reflected in the fund accounts and in fund financial statements? Or, are amounts being offset? [GASB 1, Sec. 1300.110 (GASB Cod. Sec. 1300.110)]	—	—	—
6. Do the financial statements disclose the amount of interfund receivables and payables by fund? [ASLGU, Ch. 8, par. 21]	—	—	—
7. Are property tax assessments recognized in the period levied provided the "available" criteria are met (then due, past due and receivable within the current period and collected within the current period or within 60 days thereafter)? [GASB 1, Sec. P70. 103 (GASB Cod. Sec. P70.103)]	—	—	—
8. Are property taxes receivable expected to be collected within 60 days following the current period? [GASB 1, Sec. P70.103 (GASB Cod. Sec. P70 .103); ASLGU, Ch. 8, par. 11]	—	—	—
9. Where the facts justify a period exceeding 60 days, has the governmental unit			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
disclosed the period used and the justification for the recording practice used? [GASB 1, Sec. P70.103 (GASB Cod. Sec. P70 .103); ASLGU, Ch. 8, par. 11]	—	—	—
10. Are allowances for uncollectible receivables shown as deductions from the related receivables? [APB 12, par. 3 (AC V18.102)]	—	—	—
<b>D. Inventories</b>			
1. Have significant amounts of inventory been reported on the balance sheet? [GASB 1, Sec. 1600.122 (GASB Cod. Sec. 1600.122)]	—	—	—
2. Has the basis for stating inventories been disclosed, including the method of determining cost? [ARB 43, Ch. 3A, par. 9 and Ch. 4, par. 15 (AC 178.120)]	—	—	—
3. If substantial and unusual losses result from write-down to market values, have these been disclosed separately from other expenditures/expenses, e.g., cost of goods sold in the operating statement? [ARB 43, Ch. 4, par. 14 (AC I78.117)]	—	—	—
<b>E. Investments</b>			
Investments Accounted for by the Equity Method and Joint Ventures <sup>1</sup>			
1. Have the following disclosures applicable to the equity method of accounting for investments in common stock been made:			
a. The name of each investee and percentage of ownership or other manifestation of significant influence?	—	—	—
b. Accounting policies of the client relative to equity method investments?	—	—	—

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<sup>1</sup> GASB Statement No. 14, The Financial Reporting Entity, effective for financial statements for periods beginning after December 15, 1992, will change the current disclosure and reporting of joint ventures. See appendix A.

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
c. Difference, if any, between the amount at which the investment is carried and the amount of underlying equity in net assets and the accounting treatment of the difference?	—	—	—
d. The aggregate market value of each identified investment for which a market value is available?	—	—	—
e. When investments in unconsolidated subsidiaries or joint ventures are in the aggregate material in relation to financial position or results of operations, has summarized information as to assets, liabilities, and results of operations been presented in the notes or have separate statements been presented for such subsidiaries or joint ventures, either individually or in groups, as appropriate? [APB 18, par. 20 (AC I82.110)]	—	—	—
f. Are equity method investments shown in the balance sheet as a single amount, and the client's share of operating results of the investee shown in the operating statement as a single amount, except for extraordinary items, prior-period adjustments, etc.? [APB 18, par. 19c and d (AC I82.109c and d)]	—	—	—
2. If an investment in a joint venture does not meet the criteria for inclusion within the reporting entity (refer to GASB Cod. Sec. 2100.108-.112), was the equity method used? [GASB 1, Sec. J50.102 (GASB Cod. Sec. J50.102)]	—	—	—
3. Were the following disclosures made in addition to disclosures required in Section "Ea-f" shown above?	—	—	—
a. A general description of each joint venture, including:			
(1) Identifying the participants and their percentage shares?	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(2) Describing the arrangements for selecting the governing body or management?	---	---	---
(3) Disclosing the degree of control the participants have over budgeting and financing?	---	---	---
b. Condensed or summary financial information on each joint venture including:			
(1) Balance sheet date?	---	---	---
(2) Total assets, liabilities, and equity?	---	---	---
(3) Total revenues expenditures/expenses, other financing sources (uses), and net increase (decrease) in fund balance/retained earnings?	---	---	---
(4) Reporting entity's share of assets, liabilities, equity, and changes therein during the year, if known?	---	---	---
c. Joint venture debt, both current and long-term, and the security for the debt. [GASB 1, Sec. J50.103 (GASB Cod. Sec. J50 .103)]	---	---	---

F. Fixed Assets

1. Are general fixed assets, other than those accounted for in the proprietary funds, trust or agency funds, accounted for in the General Fixed Asset Account Group rather than in the governmental funds?  
[GASB 1, Sec. 1400.106 (GASB Cod. Sec. 1400.106)]
2. In connection with assets capitalized in the General Fixed Asset Account Group, were the following disclosures generally incorporated in the financial statements or the notes:

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
a. Details of general fixed assets, such as land, buildings, and equipment?	—	—	—
b. The basis for carrying assets in the General Fixed Asset Account Group, for example, cost or estimated cost?	—	—	—
c. Whether infrastructure assets are included or excluded from the General Fixed Assets Account Group?	—	—	—
d. Whether depreciation is recorded in the General Fixed Assets Account Group and, if so, the depreciable lives and methods of computation?	—	—	—
e. A reconciliation of changes in the General Fixed Assets Account Group during the year?	—	—	—
f. Capitalization of interest during construction? (FASB Statement Nos. 34 and 62)	—	—	—
g. Commitments under long-term construction projects?	—	—	—
h. The status of capital grants?	—	—	—
i. Pertinent data regarding capital and operating leases? [ASLGU, Ch. 9, par. 22]	—	—	—
3. Regarding fixed assets, other than those pertaining to the proprietary funds or trust funds, have the following disclosures been made:			
a. A breakdown of fixed assets by major classes? [APB 12, par. 5 (AC D40.105b)]	—	—	—
b. Changes in fixed assets by the various classes? [GASB 1, Sec. 2200.106b(4)(a) (GASB Cod. Sec. 2200.106b(4)(a))]	—	—	—
c. The basis of donated fixed assets, which should be estimated fair market value at date of acquisition? [GASB 1, Sec. 1400.113 (GASB Cod. Sec. 1400.113)]	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
d. If recording accumulated depreciation in the General Fixed Assets Account Group was elected, was the accumulated depreciation account(s) increased and investment in general fixed assets account(s) decreased? [GASB 1, Sec. 1400.118 (GASB Cod. Sec. 1400.118)]	---	---	---
e. A general description of the method or methods used in computing depreciation in the GFAAG with respect to major classes of depreciable assets? [APB 12, par. 5 (AC D40.105d)]	---	---	---
4. Regarding proprietary funds, has depreciation expense been disclosed for the period? [APB 12, par. 5a (AC D40.105); GASB 1, Sec. 1400.115 (GASB Cod. Sec. 1400.115)]	---	---	---
5. If interest has been incurred during the construction period of certain assets:			
a. Has the accounting policy for capitalization of interest cost been disclosed?	---	---	---
b. Has this policy been consistently applied? [GASB 1, Sec. 1400.111 (GASB Cod. Sec. 1400.111)]	---	---	---
6. Reporting public domain or infrastructure "fixed assets—roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar assets that are immovable and of value only to the governmental unit—is optional." Has the accounting policy regarding those assets been consistently applied? [GASB 1, Sec. 1400.109 (GASB Cod. Sec. 1400.109)]	---	---	---
7. Has the accounting policy for infrastructure fixed assets been disclosed in the notes to financial statements? [GASB 1, Secs. 1400.109 and 2300(a)(4) (GASB Cod. Secs. 1400.109 and 2300.104 (a)(4))]	---	---	---



YES   NO   N/A

G. Lessors

1. For sales-type and direct financing leases do disclosures include:

a. Appropriate components of the net investment in the leases as of the date of each balance sheet presented?      \_\_\_\_\_

b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the date of the latest balance sheet presented?      \_\_\_\_\_

c. Total contingent rentals included in operations for each period for which a Statement of Revenues and Expenditures is presented?  
[SFAS 13, par. 23a (AC L10.119a)]      \_\_\_\_\_

d. For direct financing leases, the amount of initial direct costs as part of the investment?  
[SFAS 91, par. 25d (AC L10.119a.1)]      \_\_\_\_\_

2. For operating leases do disclosures include:

a. Cost and carrying amount of property on lease or held for leasing by major classes and the amount of accumulated depreciation as of the date of the latest balance sheet presented?      \_\_\_\_\_

b. Minimum future rentals on noncancelable leases as of the date of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?      \_\_\_\_\_

c. Total contingent rentals included in operations for each period for which a Statement of Revenues and Expenditures is presented?  
[SFAS 13, par. 23b (AC L10.119b)]      \_\_\_\_\_

3. Do disclosures include a general description of the lessor's leasing arrangements?  
[SFAS 13, par. 23c (AC L10.119c); for amendments of SFAS 13 see SFASs 22, 23, 27, 28, 29 and 98; for interpretations      \_\_\_\_\_

YES   NO   N/A

see FASBIs 19, 21, 23, 24, 26 and 27; for Technical Bulletins see TBs 79-10, 79-12, 79-13, 79-14, 79-15, 79-16, 79-17 and 79-18]

4. Are leveraged leases appropriately accounted for and reported?  
[SFAS 13, pars 41-47 (AC L10.143-.149)]

\_\_\_ \_\_\_ \_\_\_

H. Other Assets and Deferred Charges

1. Are the costs of intangible assets acquired from other entities recorded as assets?  
[APB 17, pars. 24-26 (AC I60.105-.107)]

\_\_\_ \_\_\_ \_\_\_

2. Are the costs of developing, maintaining or restoring intangible assets which are not specifically identifiable, have indeterminate lives, or are inherent in a continuing business and related to the entity as a whole, expensed when incurred?  
[APB 17, par. 24 (AC I60.105)]

\_\_\_ \_\_\_ \_\_\_

3. Regarding proprietary funds, are issue costs of debt reported as deferred charges?  
[APB 21, par. 16 (AC I69.109)]

\_\_\_ \_\_\_ \_\_\_

4. Regarding funds other than proprietary funds, are issue costs of debt charged to operations immediately?  
[GASB 1, Sec. 1600.117 (GASB Cod. Sec. 1600.117)]

\_\_\_ \_\_\_ \_\_\_

5. For proprietary funds, is the method and period of amortization for intangible assets disclosed?  
[APB 17, pars. 30 and 33 (AC I60.111); APB 22, par. 13 (AC A10.106)]

\_\_\_ \_\_\_ \_\_\_

6. Are the reasons for not amortizing pre-November 1, 1970 intangibles and the amounts thereof disclosed?  
[APB 17, par. 34 (AC I60.102b)]

\_\_\_ \_\_\_ \_\_\_

7. Has the cash surrender value of life insurance been disclosed?  
[ARB 43, Ch. 3a, par. 6 (AC B05.107); TB 85-4]

\_\_\_ \_\_\_ \_\_\_

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
<b>I. Liabilities</b>			
1. Do financial statements disclose the nature of any restrictions on assets related to debt? [ASLGU, Ch. 11, par. 27]	—	—	—
2. Were the following disclosures made related to debt:			
a. The nature of outstanding debt, including significant bond covenants?	—	—	—
b. Debt service requirements to maturity?	—	—	—
c. Details of capital leases?	—	—	—
d. Amounts of authorized but unissued debt?	—	—	—
e. Violations of significant bond covenants?	—	—	—
f. Nature and amount of guarantees, contingent and moral obligations, and non-commitment debt?	—	—	—
g. Changes in the amount of long-term obligations?	—	—	—
h. The amount of unpaid debt that has been defeased?	—	—	—
i. Debt incurred subsequent to the balance sheet date but before the financial statements are issued?	—	—	—
j. An existing or anticipated inability to pay debt when due? [ASLGU, Ch. 11, par. 27]	—	—	—
3. Do governmental fund balance sheets reflect only the current portion of the liabilities left unpaid at the end of the reporting period that normally would be liquidated with expendable available financial resources? [GASB 1, Sec. C50.113 (GASB Cod. Sec. C50 .113)]	—	—	—
4. Are only current liabilities, commonly referred to as fund or short-term liabil-			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
ities, reported on the governmental fund balance sheets? [ASLGU, Ch. 10, par. 17]	—	—	—
5. Do the financial statements disclose the following:			
a. Basis of accounting for expenditures and liabilities, for example, modified accrual accounting?	—	—	—
b. Method of accounting for outstanding encumbrances at year-end?	—	—	—
c. Disclosure of contingent liabilities? [ASLGU, Ch. 10, par. 18 and Ch. 17, par. 13; GASB 1, Sec. 2300.104 (GASB Cod. Sec. 2300.104)]	—	—	—
6. Have significant categories been classified and segregated, e.g., accounts payable; accrued costs; notes; customer deposits; interest payable; amounts due to other funds or governments; officers or employees; special termination benefits? [GASB 1, Sec. 1800.114-.120 (GASB Cod. Sec. 1800.114-.120)]	—	—	—
7. Have amounts payable from restricted assets been separately disclosed and properly classified, e.g.,: Construction contracts? Revenue Bonds? Fiscal Agent? Deposits? Accrued interest? [GASB Cod. Sec. 2200.603]	—	—	—
8. For convertible debt, if applicable, are conversion features appropriately accounted for and disclosed? [APB 14, pars. 12 & 16-18 (AC D10.103 and D10.105-.107)]	—	—	—
9. Do current liabilities exclude short-term obligations that the entity intends to refinance on a long-term basis provided the entity has demonstrated the ability to consummate the long-term financing? [SFAS 6, pars. 8-14 (AC B05.112-.116); FASBI 8 (AC B05.117 and B05.138-.139)]	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
10. If a short-term obligation is to be excluded from current liabilities per SFAS 6, do disclosures include:			
a. General description of the financing agreement?	—	—	—
b. Terms of any new obligation incurred or expected to be incurred, as a result of the refinancing? [SFAS 6, par. 15 (AC B05.118); FASBI 8, par. 3 (AC B05.117); TB 79-3 (AC B05.501-.503)]	—	—	—
11. For governmental funds, if all legal steps have been taken to refinance bond anticipation notes and the intent is supported by an ability to consummate refinancing the short-term note on a long-term basis in accordance with FASB 6, are they shown as part of the GLTDAG? [GASB 1, Sec. B50.101 (GASB Cod. Sec. B50.101)]	—	—	—
12. Are demand bonds reported as general long-term debt or excluded from current liabilities of proprietary funds if the following conditions are met:			
a. Before the financial statements are issued, the issuer has entered into an arm's-length financing (take out) agreement to convert bonds "put" but not resold into some other form of long-term obligation?	—	—	—
b. The take out agreement does not expire within one year from the date of the issuer's balance sheet?	—	—	—
c. The take out agreement is not cancelable by the lender or the prospective lender during that year, and obligations incurred under the take out agreement are not callable by the lender during that year?	—	—	—
d. The lender or the prospective lender or investor is expected to be finan-			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
<p style="padding-left: 40px;">cially capable of honoring the take out agreement? [GASBI 1, par. 10 (GASB Cod. Sec. D30 .108)]</p>	---	---	---
13. If the conditions in 12 above are not met, are they reported as fund liabilities or, for proprietary funds, as current liabilities?	---	---	---
14. In addition to debt disclosures required by GASB Cod. Sec. 2300, are the following disclosures made for demand bonds outstanding:			
a. A general description of the demand bond program?	---	---	---
b. Terms of any letters of credit or other standby liquidity agreements outstanding, commitment fees to obtain the letters of credit, and any amounts drawn on them outstanding as of the balance sheet date?	---	---	---
c. A description of the take out agreement including its expiration date, commitment fees to obtain the agreement, and the terms of any new obligations under the take out agreement?	---	---	---
d. The debt service requirements that would result if the take out agreement were to be exercised? [GASBI 1, par. 11 (GASB Cod. Sec. D30 .109)]	---	---	---
15. If a take out agreement has been exercised converting the bonds to an installment loan, is the installment loan reported as general long-term debt and the payment schedule under the installment loan included as part of the schedule of debt service requirements to maturity, as required by Section 2300, paragraph 104i? [GASBI 1, par. 12 (GASB Cod. Sec. D30 .110)]	---	---	---
16. If the conditions of paragraph .12 are not met at the time a demand bond is issued (or prior to issuance of the financial statements for that year), is the			

- |  | <u>YES</u> | <u>NO</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| liability for demand bonds reported as a liability of the fund used to account for the proceeds of the bond issue?<br>[GASBI 1, par. 13 (GASB Cod. Sec. D30 .111)]   | —          | —         | —          |
| 17. If, because a take out agreement expires, it is necessary to report a fund liability for demand bonds previously reported as general long-term debt, is the liability recorded as a liability of the fund in which the proceeds of the issue were initially recorded with a corresponding debit to "other financing uses."<br>[GASBI 1, par. 13 (GASB Cod. Sec. D30 .111)] | —          | —         | —          |
| 18. If the answer to numbers 16 or 17 above is "yes," are debt redemptions reported as expenditures of the fund from which debt service is normally paid and the liability (represented by the demand bonds) reduced simultaneously by a credit to "other financing sources."<br>[GASBI 1, par. 13 (GASB Cod. Sec. D30 .111)]  | —          | —         | —          |
| 19. For periods after a troubled debt restructuring, do disclosures include:   |            |           |            |
| a. Extent to which amounts contingently payable are included in the carrying amount of restructured payables?  | —          | —         | —          |
| b. Total amounts contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven?<br>[SFAS 15, par. 26 (AC D22.122)]  | —          | —         | —          |
| 20. Where the reporting entity is a creditor, have the disclosures regarding troubled debt restructurings been made in accordance with paragraph No. 27 of FASB 15?<br>[SFAS 15, par. 27 (AC D22.123)]   | —          | —         | —          |
| 21. Has debt, as required, been considered extinguished for financial reporting purposes because:  |            |           |            |
| a. The debtor pays the creditor and is relieved of all its obligations with  |            |           |            |

YES   NO   N/A

respect to the debt? This includes the debtor's reacquisition of its outstanding debt securities in the public securities market, regardless of whether the securities are cancelled or held as so-called treasury bonds.

\_\_\_ \_\_\_ \_\_\_

b. The debtor is legally released from being the primary obligor and it is probable that the debtor will not be required to make future payments with respect to that debt under any guarantee?

\_\_\_ \_\_\_ \_\_\_

c. The debtor irrevocably places cash or other assets in a trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt and the possibility that the debtor will be required to make future payments with respect to that debt is remote?

\_\_\_ \_\_\_ \_\_\_

[SFAS 76, par. 3 (AC D14.102A); GASB 7, par. 3 (GASB Cod. Sec. D20.103)]

22. If debt is considered to be extinguished (in an in-substance defeasance) under the provision of D14.102A(c) of SFAS 76, paragraph 6, has a general description of the transaction and the amount of debt that is considered extinguished at the end of the period been disclosed so long as that debt remains outstanding?

\_\_\_ \_\_\_ \_\_\_

[SFAS 76, par. 6 (AC D14.108); GASB 7, pars. 1, 3 and 7 (GASB Cod. Sec. D20.101 and .102)]

23. For proprietary and similar fund types, if there is an extinguishment of debt, is the difference between reacquisition price and carrying amount recognized currently in income and identified as a separate item?

\_\_\_ \_\_\_ \_\_\_

[GASB 1, Sec. D20.107 (GASB Cod. Sec. D20.107); APB 26, par. 20-21, FASB 4, par. 1 (AC D14.103-.104)]

24. If the difference is material is it disclosed as an extraordinary item?

\_\_\_ \_\_\_ \_\_\_

[SFAS 4, par. 8 (AC D14.107); GASB 1, Sec. D20.105-.107 (GASB Cod. Sec. D20.105-.107)]



YES   NO   N/A

25. In an advance refunding resulting in a defeasance of debt, for governmental fund types, are the proceeds of the new debt reported as an "other financing source—proceeds of refunding bonds" in the fund receiving the proceeds? Are payments to the escrow agent from resources provided by the new debt reported as an "other financing use—payment to refunded bond escrow agent"?  
[GASB 7, par. 8 (GASB Cod. Sec. D20.108)]
26. Regardless of where the debt is reported, for a defeasance of debt through an advance refunding, was a general description provided of the transaction in the notes to the financial statements in the year of the refunding?  
[GASB 7, par. 11 (GASB Cod. Sec. D20.111)]
27. At a minimum did the disclosures include:
- a. The difference between the cash flows required to service the new debt and complete the refunding,
- and
- b. The economic gain or loss resulting from the transaction?  
[GASB 7, par. 11 (GASB Cod. Sec. D20.111)]
28. Were disclosures made by fund type and account group?  
[GASB 7, par. 13 (GASB Cod. Sec. D20.113)]
29. In all periods following an advance refunding for which debt defeased in substance remains outstanding, is the amount outstanding at period-end disclosed?  
[GASB 7, par. 14 (GASB Cod. Sec. D20.114)]
30. Are long-term obligations that are or will be callable by the creditor because the debtor's violation of the debt agreement at the balance sheet date makes the obligation callable or because the violation, if not cured within a specified

YES   NO   N/A

grace period, will make the obligation callable, classified as current unless one of the following conditions is met:

- |   |   |   |   |
|---|---|---|---|
| a. The creditor waived or subsequently lost the right to demand repayment for more than one year (or operating cycle, if longer) from the balance sheet date?   | — | — | — |
| b. The obligation contains a grace period within which the debtor may cure the violation, is it probable that the violation will be cured within that period, thus preventing the violation from becoming callable?<br>[SFAS 78, par. 5 (AC B05.109A and B05 .118)]   | — | — | — |
| 31. Has disclosure been made of defaults in provisions of security, indenture or credit agreements?<br>[SFAS 78, par. 5 (AC B05.109A)]  | — | — | — |
| 32. If a waiver has been obtained for a stated period of time, has disclosure been made of the period?<br>[SFAS 78, par. 5 (AC B05.109A)]   | — | — | — |
| 33. Are guarantees and other commitments included in liabilities?<br>[ASLGU, Ch. 11, pars. 9-12]  | — | — | — |
| 34. Does a note describe the accounting policies for recording such liabilities?<br>[ASLGU, Ch. 11, par. 28]  | — | — | — |
| 35. Have bonds, notes and other long-term liabilities (for example, for capital leases, pensions, judgments, compensated absences, special termination benefits, and similar commitments) directly related to and expected to be paid from proprietary funds, special assessment funds, and [certain] trust funds been included in the accounts of such funds?<br>[GASB 1, Sec. 1500.102 as amended by GASB 6, par. 13 (GASB Cod. Sec. 1500.102)] | — | — | — |

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
36. Has one amount been disclosed on the balance sheet as the total liabilities for each fund type? [GASB 1, Sec. 2200.110 (GASB Cod. Sec. 2200.110)]	---	---	---

J. Lessees

1. For capital leases do disclosures include:

a. Gross amounts of assets and the accumulated amortization recorded by major classes as of the date of each balance sheet presented?

--- --- ---

b. The lease obligations classified as current and long term?  
[SFAS 13, par. 16a (AC L10.112a (1)-(4)); GASB 1, Sec. L20.124 (GASB Cod. Sec. L20.124); ASLGU, Ch. 9, par. 22]

--- --- ---

c. Future minimum lease payments as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years with appropriate separate deductions therefrom for executory costs and imputed interest to reduce net minimum lease payments to present value?  
[SFAS 13, pars. 10 & 16a (AC L10.106 and L10.112a (1)-(4))]

--- --- ---

d. Total of future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet presented?  
[SFAS 13, par. 16a (AC L10.112a (1)-(4))]

--- --- ---

e. Total contingent rentals actually incurred for each period for which a Statement of Revenue and Expenditures is presented?  
[SFAS 13, par. 16a (AC L10.112a (1)-(4)) as amended 10/1/79 by SFAS 29, par. 12]

--- --- ---

2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
a. Future minimum rental payments required as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?	_____	_____	_____
b. Total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented?	_____	_____	_____
c. Have the nature and extent of leasing transactions with related parties been disclosed? [SFAS 13, par. 16b (AC L10.112b)]	_____	_____	_____
3. For all operating leases do disclosures include: rental expense for each period for which an operating statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals? [SFAS 13, par. 16c (AC L10.112c)]	_____	_____	_____
4. Do disclosures include a general description of the lessee's leasing arrangements including but not limited to:			
a. Basis for determination of contingent rentals?	_____	_____	_____
b. Terms of any renewal or purchase options or escalation clauses?	_____	_____	_____
c. Restrictive covenants? [SFAS 13, par. 16d (AC L10.112d); for amendments of SFAS 13 see SFASs 17, 22, 23, 27, 28, 29, 91 and 98; for interpretations see FASBIs 19, 21, 23, 24, 26 and 27; for technical bulletins see TBs 79-10, 79-12, 79-13, 79-14, 79-15, 79-16, 79-17, and 79-18]	_____	_____	_____
<b>K. Other Liabilities and Deferred Credits</b>			
1. Are estimated losses from loss contingencies accrued if both "probable" and the amount can be reasonably estimated as explained in SFAS 5? [SFAS 5, par. 8 (AC C59.105); FASBI 14 (AC C59.106-.107 and C59.124-.127);	_____	_____	_____

YES   NO   N/A

ASLGU, Ch. 4, par. 16, Ch. 10, par. 10,  
and Ch. 17, par. 13; GASB 1, Sec. C50.110  
(GASB Cod. Sec. C50.110)]

2. Are liabilities appropriately accrued and reported for employees' compensation for future absences?

\_\_\_   \_\_\_   \_\_\_

[SFAS 43, pars. 6-7 (AC C44.104 and C44.108); GASB 1, Sec. C50.112 (GASB Cod. Sec. C50.112)]

- a. Has the amount of the liability for compensated absences which will be liquidated with expendable available financial resources been recorded as current liabilities?

\_\_\_   \_\_\_   \_\_\_

[GASB 1, Sec. C50.113 (GASB Cod. Sec. C50.113)]

- b. Has the remainder of the liability in 2 above been recorded in GLTDAG?

\_\_\_   \_\_\_   \_\_\_

[GASB 1, Sec. C50.113 (GASB Cod. Sec. C50.113)]

- c. If the governmental unit has not accrued compensated absences because the amount cannot be reasonably estimated, has this been disclosed in the notes?

\_\_\_   \_\_\_   \_\_\_

[SFAS 43, pars. 6-7 (AC C44.104)]

L. General Long-Term Debt

1. Are long-term liabilities of proprietary funds and trust funds accounted for through those funds?

\_\_\_   \_\_\_   \_\_\_

[GASB 1, Sec. 1500.101 (GASB Cod. Sec. 1500.101); GASB 1, Sec. 1500.102 as amended by GASB 6, par. 13 (GASB Cod. Sec. 1500.102)]

2. Are other unmatured general long-term liabilities of the governmental unit accounted for through the General Long-Term Debt Account Group (GLTDAG)?

\_\_\_   \_\_\_   \_\_\_

[GASB 1, Sec. 1500.101 (GASB Cod. Sec. 1500.101); GASB 1, Sec. 1500.103; GASB 6, par. 17 and GASBI 1, par. 10 (GASB Cod. Sec. 1500.103)]

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
3. Have the individual components of long-term debt been classified appropriately as term bonds, serial bonds, and other general long-term liabilities? [GASB 1, Sec. 1500.105 (GASB Cod. Sec. 1500.105)]	---	---	---
4. For advance refundings resulting in defeasance of debt, was the GLTDAG adjusted for the increase or decrease in the amount of long-term debt? [GASB 7, par. 9 (GASB Cod. Sec. D.20 .109)]	---	---	---
<b>M. Fund Balance</b>			
1. Is there a disclosure made of any deficit fund balance or deficit retained earnings of individual funds? [GASB 1, Sec. 2300.104o (GASB Cod. Sec. 2300.104o)]	---	---	---
2. Has the designation "fund balance" only been used in appropriate fund types, i.e., General, Special Revenue, Debt Service, Capital Projects, and Trust Fund types? [GASB 1, Sec. 2200.110 (GASB Cod. Sec. 2200.110)]	---	---	---
3. Have the fund balances (equity) of governmental funds been classified as either reserved or unreserved? [ASLGU, Ch. 12, par. 1]	---	---	---
4. Have all changes in fund balances (equity) been disclosed? [APB 12, par. 10 (AC C08.102); ASLGU, Ch. 12, par. 11]	---	---	---
5. Have any differences between opening fund balances and those previously reported been disclosed? [APB 9, par. 26 (AC A35.107); GASB 1, Sec. 2200.117 (GASB Cod. Sec. 2200.117)]	---	---	---
6. Is the retained earnings reserve only shown in proprietary funds, such as Enterprise and Internal Service Funds? [GASB 1, Sec. 2200.116 (GASB Cod. Sec. 2200.116)]	---	---	---

- |   | <u>YES</u> | <u>NO</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 7. Are contributed equity and retained earnings separately disclosed in proprietary fund types?<br>[GASB 1, Sec. 2200.603 (GASB Cod. Sec. 2200.603)]  | ---        | ---       | ---        |
| 8. Where certain proprietary assets net of related proprietary liabilities are restricted in the balance sheet, is there disclosure of a corresponding reserve in retained earnings?<br>[GASB 1, Sec. 2200.603 (GASB Cod. Sec. 2200.603)] | ---        | ---       | ---        |

III. COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES—ALL GOVERNMENTAL FUND TYPES (AND SIMILAR TRUST FUNDS)

A. General

- |   |     |     |     |
|---|-----|-----|-----|
| 1. Is a combined statement titled "Combined Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Fund Types" being presented?<br>[GASB 1, Sec. 1900.112-.114 (GASB Cod. Sec. 1900.112-.114) and GASB 1, Sec. 2200.110 (GASB Cod. Sec. 2200.110)] | --- | --- | --- |
| 2. Is the primary classification of governmental fund revenues disclosed by fund and source?<br>[GASB 1, Sec. 1800.114 (GASB Cod. Sec. 1800.114)]   | --- | --- | --- |
| 3. Does the summary of significant accounting policies indicate that the modified accrual basis is used for recording all material revenues for governmental and similar expendable trust and agency funds?<br>[GASB 1, Sec. 1600.108 (GASB Cod. Sec. 1600.108)]              | --- | --- | --- |
| 4. Indicate whether the basis of accounting used for recording revenues is determined by the fund type in which the grant, entitlement or shared revenue transactions are recorded?<br>[GASB 1, Sec. G60.103 (GASB Cod. Sec. G60.103)]  | --- | --- | --- |

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
5. Are the major sources of revenues separately disclosed, such as grants, entitlements and shared revenues, taxes, licenses and permits, intergovernmental revenues, charges for services, fines and forfeits and miscellaneous? [GASB 1, Sec. 2200.110 (GASB Cod. Sec. 2200.110)]	---	---	---
6. Has a separate column been used for each governmental fund type and similar trust fund used which shows the combined data for all such funds? [GASB 1, Sec. 2200.110 (GASB Cod. Sec. 2200.110)]	---	---	---
7. If the combined statement contains a total column that aggregates the columnar statements by fund types and account groups, is it captioned "Memorandum Only" because the total column is not comparable to a consolidation? [ASL GU, Ch. 18, par. 9]	---	---	---
8. Are interfund transfers and proceeds of long-term debt, including capital leases, classified separately from fund revenues and expenditures? [GASB 1, Sec. 1800.101 (GASB Cod. Sec. 1800.101) and GASB 1, Sec. 1800.106-.110 as amended by GASB 6 (GASB Cod. Sec. 1800.106-.110)]	---	---	---
9. Are any grants, entitlements and shared revenues, which may be used in more than one fund at the discretion of the recipient, accounted for in an agency fund pending final determination? [GASB 1, Sec. G60.107 (GASB Cod. Sec. G60.107)]	---	---	---
10. Have those assets being held in agency funds pending a determination of the fund(s) to be financed been disclosed in the notes to financial statements? [GASB 1, Sec. G60.107 (GASB Cod. Sec. G60.107)]	---	---	---



YES   NO   N/A

B. Property Taxes

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Do the financial statements or the notes disclose that property taxes have been recorded on the modified accrual basis?<br>[GASB 1, Secs. P70.102-.103 (GASB Cod. Secs. P70.102-.103)]   | _____ | _____ | _____ |
| 2. If the governmental entity desires to exclude some property tax revenues from appropriation to protect cash liquidity, has this restricted revenue been disclosed by a designation of fund balance and an appropriate footnote?<br>[GASB 1, Sec. P70.105 (GASB Cod. Sec. P70.105)]   | _____ | _____ | _____ |
| 3. Have the following details of the governmental unit's property tax calendar been disclosed:  |       |       |       |
| a. Lien dates?  | _____ | _____ | _____ |
| b. Levy dates?  | _____ | _____ | _____ |
| c. Due dates?   | _____ | _____ | _____ |
| d. Collection dates?<br>[GASB 1, Sec. P70.109 (GASB Cod. Sec. P70.109)]   | _____ | _____ | _____ |
| 4. If a governmental unit is prohibited by law from budgeting or appropriating property taxes recognized as revenue pursuant to Section P70, GASB Cod., has such prohibition been disclosed by a reservation of fund balance and explained in the notes to financial statements?<br>[GASB 1, Sec. P70.104 (GASB Cod. Sec. P70.104)] | _____ | _____ | _____ |

C. Sales Taxes

- |   |       |       |       |
|---|-------|-------|-------|
| 1. For the entity being audited are sales tax revenues both measurable and available, i.e., collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period?<br>[GASB 1, Sec. S10.101 (GASB Cod. Sec. S10.101)] | _____ | _____ | _____ |
|---|-------|-------|-------|

- |   | <u>YES</u> | <u>NO</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 2. If taxpayer liability has been established and collectibility is assured or losses can reasonably be estimated, have sales tax revenues been recorded on the modified accrual basis?<br>[GASB 1, Sec. 1600.107 and footnote 1 (GASB Cod. Sec. 1600.107 and footnote 1)]  | ---        | ---       | ---        |
| 3. If taxpayer liability and collectibility for sales taxes has clearly been established, as when tax returns have been filed, but collection, while assured, is delayed beyond the normal time of receipt, have these revenues been recognized as cash is received rather than recorded on the modified accrual basis?<br>[GASB 1, Sec. S10.102 (GASB Cod. Sec. S10 .102)] | ---        | ---       | ---        |
| 4. Have sales taxes collected by merchants which are not yet required to be remitted to the taxing authority at the end of the fiscal year not been accrued?<br>[GASB 1, Sec. S10.103 (GASB Cod. Sec. S10 .103)]  | ---        | ---       | ---        |
| 5. Where sales taxes have been collected and held by one government agency for another at year-end, have these taxes been accrued if they are remitted in time to be used as a resource for payment of obligations incurred during the preceding fiscal year?<br>[GASB 1, Sec. S10.103 (GASB Cod. Sec. S10 .103)]   | ---        | ---       | ---        |
| 6. <u>Early or Delayed Receipts</u> . Have material sales tax revenues, otherwise not recorded until they are received, been accrued if receipt is delayed beyond the normal time of receipt?<br>[GASB 1, Sec. S10.104 (GASB Cod. Sec. S10 .104)]   | ---        | ---       | ---        |
| 7. Have material sales tax revenues received prior to normal time of receipt been recorded as deferred revenue?<br>[GASB 1, Sec. S10.104 (GASB Cod. Sec. S10 .104)]   | ---        | ---       | ---        |

YES   NO   N/A

D. Income Taxes

1. Have taxpayer assessed income and gross receipts taxes been recognized as cash is received even though the tax returns have been filed but collection, while assured, is delayed beyond the normal time of receipt?

[GASB 1, Sec. 1600.110 (GASB Cod. Sec. 1600.110)]

\_\_\_   \_\_\_   \_\_\_

2. Have known refunds of income and gross receipts taxes been recorded as a liability and a reduction of revenue as of the time the refund claims are filed with the taxing authority?

[GASB 1, Sec. 1600.110 (GASB Cod. Sec. 1600.110)]

\_\_\_   \_\_\_   \_\_\_

E. Grants, Entitlements or Shared Revenues

1. Basis of Accounting. For governmental funds have grants, entitlements, or shared revenues been recognized as revenue in the accounting period when they become susceptible to accrual, i.e., both measurable and available (modified accrual basis)?

[GASB 1, Sec. 2300.105L (GASB Cod. Sec. 2300.105L); GASB 1, Sec. G60.103 (GASB Cod. Sec. G60.103)]

\_\_\_   \_\_\_   \_\_\_

2. Has the basis of recording grants, entitlements or shared revenues been disclosed in the notes to financial statements?

[GASB 1, Sec. 2300.105L (GASB Cod. Sec. 2300.105K)]

\_\_\_   \_\_\_   \_\_\_

3. Where such resources are restricted (more in form than in substance) as for example entitlements or shared revenues, has there been any failure on the part of the recipient to comply with prescribed regulations which would cause a forfeiture of the resources and has this been disclosed in the notes to financial statements?

[GASB 1, Sec. G60.109 (GASB Cod. Sec. G60.109); GASB 1, Sec. 2300.105L (GASB Cod. Sec. 2300.105K)]

\_\_\_   \_\_\_   \_\_\_

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
4. Have entitlements or shared revenues been recorded as revenue at the time of receipt or earlier if the "susceptible to accrual" criteria are met? [GASB 1, Sec. G60.109 (GASB Cod. Sec. G60 .109)]	—	—	—
5. Has grant revenue been recognized when the respective expenditures were made? [GASB 1, Sec. G60.109 (GASB Cod. Sec. G60 .109)]	—	—	—
6. Have grant and entitlement receipts and outlays been classified as revenues and expenditures respectively? [GASB 1, Sec. G60.115 (GASB Cod. Sec. G60 .115)]	—	—	—
7. Has the method selected for recognizing profits under contracts been disclosed? [ARB 45, par. 15 (AC Co4.112); APB 22, par. 13 (AC A10.106); SOP 81-1, par. 21]	—	—	—
8. If the percentage of completion method of accounting is being used by the entity, has disclosure been made of the method(s) of measuring extent of progress toward completion? [SOP 81-1, pars. 21, 25 and 45]	—	—	—
9. Have claims in excess of the agreed contract price been disclosed? [SOP 81-1, pars. 65-67]	—	—	—
<b>F. Expenditures</b>			
1. Are expenditures classified by function or program? [GASB 1, Sec. 1800.115 (GASB Cod. Sec. 1800.115)]	—	—	—
2. Are these expenditures further classified by character, e.g., current capital outlays, and debt service? [GASB 1, Sec. 1800.118 (GASB Cod. Sec. 1800.118)]	—	—	—
3. Has disclosure been made for the method utilized for the following:			
a. Have inventory items (materials and supplies) been considered expenditures			

YES   NO   N/A

either when purchased (purchase method) or when used (consumption method)? (Significant amounts of inventory should be reported in the balance sheet.)

[GASB 1, Sec. 1600.122a (GASB Cod. Sec. 1600.122a)]

\_\_\_\_\_

- b. Expenditures for insurance and similar services which extend over more than one accounting period need not be allocated between or among accounting periods, but may be accounted for as expenditures of the period of acquisition. Has the method followed been disclosed?

[GASB 1, Sec. 1600.122b (GASB Cod. Sec. 1600.122b)]

\_\_\_\_\_

- c. If interest expenditures on special assessment indebtedness approximately offset interest earned on special assessment levies, have both been recorded when due rather than when earned?

[GASB 1, Sec. S40.115 (GASB Cod. Sec. S40.115)]

\_\_\_\_\_

- d. If debt service fund resources have been provided during the current year for payment of principal and interest due early in the following year, have the expenditure and related liability been recognized in the debt service fund and has the debt principal amount been removed from the General Long-Term Debt Account Group or has disclosure of subsequent year debt service requirements been made and has the expenditure been accounted for in the year of payment?

[GASB 1, Sec. 1600.121 (GASB Cod. Sec. 1600.121)]

\_\_\_\_\_

#### G. Related-Party Transactions

If applicable, have related party transactions been disclosed separately both as to revenue and related operating costs and expenditures?

[SAS 45 (AU 1020.02); GASB 1, Sec. 2300.105f (GASB Cod. Sec. 2300.105f)]

\_\_\_\_\_

YES   NO   N/A

H. Depreciation

Depreciation expense should not be recorded in governmental funds. Has this policy been followed in all governmental funds?  
[GASB 1, Sec. 1400.116 (GASB Cod. Sec. 1400 .116)]

\_\_\_\_\_

I. Transfers

1. Are residual equity transfers reported as additions to or deductions from the beginning fund balance?  
[GASB 1, Sec. 1800.107 (GASB Cod. Sec. 1800.107)]

\_\_\_\_\_

2. Are operating transfers reported in the "Other Financing Sources (Uses)" section in the statement?  
[GASB 1, Sec. 1800.107 (GASB Cod. Sec. 1800.107)]

\_\_\_\_\_

J. Operating Leases With Scheduled Rent Increases

1. Are transactions which arise from operating leases with scheduled rent increases measured based on the terms of the lease contract when the pattern of the payment requirements, including the increases, is systematic and rational?  
[GASB 13, par. 5 (GASB Cod. Sec. L20 .110)]

\_\_\_\_\_

2. If an operating lease with scheduled rent increases contains payment requirements in a particular year that are artificially low when viewed in the context of earlier or later payment requirements, are the operating lease transactions measured using either of the following methods:

a. A straight-line basis over the lease term?

\_\_\_\_\_

or

b. Based on the estimated fair value of the rental?  
[GASB 13, par. 6 (GASB Cod. Sec. L20 .110)]

\_\_\_\_\_

YES   NO   N/A

3. If the method in No. "2.b." above is followed, is the implicit financing by the lessor of the lessee's cash flow accounted for using the interest method? (Interest should be calculated for each period so that it results in a constant rate of interest.)  
[GASB 1, Sec. 2200.113 (GASB Cod. Sec. 2200.113)]
4. Is the budget prepared on a consistent basis in conformity with generally accepted accounting principles (GAAP)?  
[GASB 1, Sec. 2400.104 (GASB Cod. Sec. 2400.104)]
5. However, if the legally prescribed budgetary basis differs materially from GAAP, has the budgetary data been compared with actual data on the budgetary basis (e.g., which may include encumbrances)?  
[GASB 1, Sec. 2400.104 (GASB Cod. Sec. 2400.104)]
6. Have differences between the budgetary basis and GAAP (as well as other differences) been explained in the notes to financial statements?  
[GASB 1, Secs. 2400.104 and 2400.113-.123 (GASB Cod. Secs. 2400.104 and 2400.113-.123)]
7. Do the notes to financial statements disclose the degree to which the reporting entity's financial operations are subject to a comprehensive "appropriated budget," "nonappropriated budget," or are nonbudgeted financial activities?  
[GASB 1, Sec. 2400.111 (GASB Cod. Sec. 2400.111)]
8. When a separate budgetary report is prepared, do the notes to the general purpose financial statements make reference to that report?  
[GASB 1, Sec. 2400.112 (GASB Cod. Sec. 2400.112)]

YES   NO   N/A

IV. COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES—BUDGET AND ACTUAL  
—GENERAL AND SPECIAL REVENUE FUND TYPES

A. General

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Has the combined statement been titled as shown above for the general fund and all special revenue funds and other governmental fund types for which annual budgets have been legally adopted?<br>[GASB 1, Sec. 2400.102 (GASB Cod. Sec. 2400.102)]        | _____ | _____ | _____ |
| 2. Has a column for each separate governmental fund type used been presented showing combined results for all funds of that type?<br>[GASB 1, Sec. 2200.110 (GASB Cod. Sec. 2200.110)]  | _____ | _____ | _____ |
| 3. If a total column is shown, is it captioned "Memorandum Only" because the total column on a combined financial statement is not comparable to a consolidation?<br>[GASB 1, Sec. 2200.113 (GASB Cod. Sec. 2200.113)]  | _____ | _____ | _____ |
| 4. Is there a note to the financial statements which discloses the nature of the column and explains that it does not present consolidated financial information?<br>[GASB 1, Sec. 2200.113 (GASB Cod. Sec. 2200.113)]  | _____ | _____ | _____ |
| 5. Is the budget prepared on a consistent basis in conformity with generally accepted accounting principles (GAAP)?<br>[GASB 1, Sec. 2400.104 (GASB Cod. Sec. 2400.104)]  | _____ | _____ | _____ |
| 6. However, if the legally prescribed budgetary basis differs materially from GAAP, has the budgetary data been compared with actual data on the budgetary basis (e.g., which may include encumbrances)?<br>[GASB 1, Sec. 2400.104 (GASB Cod. Sec. 2400.104)] | _____ | _____ | _____ |



YES   NO   N/A

7. Have differences between the budgetary basis and GAAP (as well as other differences) been explained in the notes to financial statements?  
[GASB 1, Secs. 2400.104 and 2400.113-.123 (GASB Cod. Secs. 2400.104 and 2400.113-.123)]
8. Do the notes to financial statements disclose the degree to which the reporting entity's financial operations are subject to a comprehensive "appropriated budget," "nonappropriated budget," or are non-budgeted financial activities?  
[GASB 1, Sec. 2400.111 (GASB Cod. Sec. 2400.111)]
9. When a separate budgetary report is prepared, do the notes to the general purpose financial statements make reference to that report?  
[GASB 1, Sec. 2400.112 (GASB Cod. Sec. 2400.112)]

V. COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS—ALL PROPRIETARY FUND TYPES (AND SIMILAR TRUST FUNDS)

A. General

1. Is a statement titled "Combined Statement of Revenues, Expenses, and Changes in Retained Earnings—All Proprietary Fund Types" presented?  
[GASB 1, Sec. 2200.109-.110 (GASB Cod. Secs. 2200.109-.110)]
2. If material, are the variations between periods in the format of the statement of changes and in the terms used to express changes in financial position adequately disclosed in the financial statements and retroactively applied to all prior periods presented?  
[SAS 1 (AU 420.15)]
3. If the disclosure and/or retroactive application in No. 2 above has not been made, was this considered in the auditor's opinion regarding consistency?  
[SAS 1 (AU 420.15)]

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
4. Does the statement include all proprietary fund types and similar trust funds? [GASB 1, Sec. 2200.129 (GASB Cod. Sec. 2200.129)]	—	—	—
5. Is a separate column used for each proprietary fund type being used and does each column present combined data for such funds? [GASB 1, Sec. 2200.110 (GASB Cod. Sec. 2200.110)]	—	—	—
6. If a total column is shown, is it captioned "Memorandum Only" and is there a note explaining that it does not present consolidated financial information? [GASB 1, Sec. 2200.113 (GASB Cod. Sec. 2200.113)]	—	—	—
7. Are the major sources of operating and nonoperating revenues and expenses shown separately on the statement? [GASB 1, Sec. 1800.121 (GASB Cod. Sec. 1800.121)]	—	—	—
8. Has disclosure been made regarding the entity's policy for recognizing proprietary and nonexpendable pension and trust funds revenues and expenses? [GASB 1, Sec. 1600.125 (GASB Cod. Sec. 1600.125)]	—	—	—
9. If sales or revenues are made on the installment or other deferred basis has the method of recognizing income been disclosed? [GASB 1, Secs. 1600.116 and 125 (GASB Cod. Secs. 1600.116 and 125)]	—	—	—
<b>B. Extraordinary Items</b>			
1. Has gain or loss resulting from an involuntary conversion of a non-monetary asset to a monetary asset been classified as either an extraordinary item or an unusual or infrequent item, whichever is applicable? [FASBI No. 30, par. 4 (AC N35.118)]	—	—	—

YES   NO   N/A

2. Was the following disclosure made for gains or losses from extinguishment of debt that are classified as extraordinary items:
- a. A description of the extinguishment transactions, including the sources of any funds used to extinguish debt if it is practicable to identify the sources?  
[SFAS 4, par. 9 (AC D14.107)]
3. Regardless of where the debt is reported for an advance refunding, has a general description of the transaction been provided including, as a minimum:
- a. The difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding?
  - b. The economic gain or loss resulting from the transaction?  
[GASB 7, par. 11 (GASB Cod. Sec. D20 .111)]
4. Have the following criteria for extraordinary items been considered:
- a. Have material events on transactions that are unusual in nature or occur infrequently but not both, and therefore do not meet both criteria for classification as an extraordinary item, been reported as a separate component of income from continuing operations?  
[APB 30, par. 26 (AC I22.101)]
  - b. Have the nature and financial effect of each transaction or event been disclosed?  
[APB 30, par. 26 (AC I22.101)]
  - c. In the absence of discontinued operations and changes in accounting principles, have the following main captions been disclosed where extraordinary items are reported:
    - (1) Income before extraordinary items?

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(2) Extraordinary items? (Note X)	—	—	—
(3) Net income? [APB 30, par. 11 (AC I17.102)]	—	—	—
5. Do disclosures include descriptions of an extraordinary event(s) or transaction(s) and the principal items entering into the determination of extraordinary gain(s) or loss(es)? [APB 30, par. 11 (AC I17.102)]	—	—	—
6. Have all extraordinary items been segregated from results of ordinary operations? [APB 30, par. 10]	—	—	—
7. For an adjustment of an extraordinary item reported in a prior period:			
a. Is the adjustment classified separately as an extraordinary item in the current period?	—	—	—
b. Are the nature, origin and amount of the item disclosed? [SFAS 16, par. 16(c) (AC I17.119)]	—	—	—
<b>C. Grants, Entitlements or Shared Revenues</b>			
1. Have grants, entitlements, or shared revenues received for proprietary fund operating purposes, or which may be utilized for either operations or capital expenditures at the discretion of the recipient government, been recognized as "nonoperating" revenues in the accounting period in which they are earned and become measurable (accrual basis)? [GASB 1, Sec. G60.110 (GASB Cod. Sec. G60.110)]	—	—	—
2. When such resources in proprietary funds have been restricted for the acquisition or construction of capital assets, have the resources been recorded as contributed equity? [GASB 1, Sec. G60.110 (GASB Cod. Sec. G60.110)]	—	—	—
3. Have grants, entitlements or shared revenues recorded in trust funds been recog-			

YES   NO   N/A

nized as revenues on a basis consistent with the fund's measurement objective (governmental or proprietary)?  
[GASB 1, Sec. G60.111 (GASB Cod. Sec. G60 .111)]

—   —   —

4. If the option was elected to show depreciation on grant and entitlement fixed assets as a reduction of the contributed capital account, was a corresponding amount shown after net income and labeled similar to "Add depreciation on fixed assets acquired by grants, entitlements, and shared revenues externally restricted for capital acquisitions and construction that reduces contributed capital"?  
[GASB 1, Sec. G60.116 (GASB Cod. Sec. G60 .116)]

—   —   —

D. Interest

Has the following information with respect to interest cost been disclosed in the financial statements or related notes:

1. For an accounting period in which no interest cost is capitalized, the amount of interest cost incurred and charged to expense during the period?
2. For an accounting period in which some interest cost is capitalized, the total amount of interest cost incurred during the period and the amount thereof that has been capitalized?  
[SFAS 34, par. 21 (AC I67.118)]

—   —   —

—   —   —

E. Residual Equity and Operating Transfers

1. Are residual fund transfers reported as additions to contributed capital or as reductions of retained earnings or contributed capital as appropriate in the circumstances?  
[GASB 1, Sec. 1800.107 (GASB Cod. Sec. 1800.107)]
2. Are operating transfers reported in the "Operating Transfers Section" of the statement?  
[GASB 1, Sec. 1800.107 (GASB Cod. Sec. 1800.107)]

—   —   —

—   —   —

YES   NO   N/A

F. Related-Party Transactions

Was disclosure made separately of material revenues and related costs and expenses in connection with transactions with related parties?

[GASB 1, Sec. 2300.105f (GASB Cod. Sec. 2300 .105f); SFAS 57, par. 2 (AC R36.102)]

\_\_\_   \_\_\_   \_\_\_

G. Depreciation

Have the following disclosures been made in the financial statements or in notes thereto (depreciation is provided on property and equipment recorded in proprietary funds):

1. Depreciation expense for the period?

\_\_\_   \_\_\_   \_\_\_

2. Balance of major classes of depreciable assets, by nature or function at the balance sheet date?

\_\_\_   \_\_\_   \_\_\_

3. Accumulated depreciation, either by major classes of depreciable assets or in total at the balance sheet date?

\_\_\_   \_\_\_   \_\_\_

4. A general description of the method or methods used in computing depreciation with respect to major classes of depreciable assets?

\_\_\_   \_\_\_   \_\_\_

[GASB 1, Sec. 1400.114-.115 (GASB Cod. Sec. 1400.114-.115); APB 12, par. 5 (AC D40.105)]

H. Nonmonetary Transactions

If one or more nonmonetary transactions occurred during the period, was disclosure made in the financial statements of the nature of the transactions, the basis of accounting for the assets transferred, and gains or losses recognized on transfers?

\_\_\_   \_\_\_   \_\_\_

[APB 29, par. 28 (AC N35.120)]

I. Gains on Sales of Securities

For each period for which an income statement is presented has the following been disclosed:

1. Net realized gain or loss included in the determination of net income?

\_\_\_   \_\_\_   \_\_\_

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
2. The basis on which cost was determined in computing realized gain or loss (that is, average cost or other method used)? [ASLGU, Ch. 7, par. 10; SFAS 12, par. 12 (AC I89.106)]	—	—	—
<b>J. Futures Contracts</b>			
If the enterprise has entered into futures contracts that have been accounted for as hedges was the following disclosed:			
1. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts?	—	—	—
2. Method of accounting for the futures contracts? The disclosure of the method shall include a description of the events or transactions that result in recognition in income of changes in value of the futures contracts. [SFAS 80, par. 2 (AC F80.112)]	—	—	—
<b>K. Research and Development Costs</b>			
Has disclosure been made in the financial statements of the total research and development costs charged to expense in each period for which an income statement is presented? [SFAS 2, par. 13 (AC R50.109)]	—	—	—
<b>L. Changes in Fund Balances/Retained Earnings</b>			
1. Has disclosure been made of changes in all fund balances/retained earnings? [APB 12, par. 10 (AC Co8.102); GASB 1, Sec. 2200.110 (GASB Cod. Sec. 2200.110)]	—	—	—
2. Where a difference exists between the opening fund balances/retained earnings and the ending balances/retained earnings previously reported, have these been disclosed? [APB 9, par. 26 (AC A35.107)]	—	—	—

YES   NO   N/A

M. Segment Information

- |   |     |     |     |
|---|-----|-----|-----|
| 1. Have segment disclosures been made for all "major nonhomogeneous" enterprise funds?<br>[GASB 1, Sec. 2500.104 (GASB Cod. Sec. 2500.104)]   | ___ | ___ | ___ |
| 2. If segment disclosures are necessary to make the general purpose financial statements (GPFS) not misleading have they been presented?<br>[GASB 1, Sec. 2500.104 (GASB Cod. Sec. 2500.104)] | ___ | ___ | ___ |
| 3. Have the following segment disclosures necessary to make the financial statements not misleading been disclosed:   |     |     |     |
| a. Material intergovernmental operating subsidies to an enterprise fund?  | ___ | ___ | ___ |
| b. Material intragovernmental operating subsidies to or from an enterprise fund?  | ___ | ___ | ___ |
| c. Material enterprise tax revenues?  | ___ | ___ | ___ |
| d. A material enterprise fund operating income or loss?   | ___ | ___ | ___ |
| e. A material enterprise fund net income or loss?<br>[GASB 1, Sec. 2500.105 (GASB Cod. Sec. 2500.105)]  | ___ | ___ | ___ |
| 4. Have the following disclosures been made for each "major nonhomogeneous" enterprise fund and in the aggregate for all other enterprise funds:  |     |     |     |
| a. Types of goods or services provided?   | ___ | ___ | ___ |
| b. Operating revenues (total revenues from sales of goods or services)? (Sales to other funds of the governmental unit, if material, should be separately disclosed.)                         | ___ | ___ | ___ |
| c. Depreciation, depletion and amortization expenses?   | ___ | ___ | ___ |



	<u>YES</u>	<u>NO</u>	<u>N/A</u>
d. Operating income or loss (operating revenues less operating expenses)?	___	___	___
e. Operating grants, entitlements, and shared revenues?	___	___	___
f. Operating interfund transfers in and out?	___	___	___
g. Tax revenues?	___	___	___
h. Net income or loss (total revenues less total expenses)?	___	___	___
i. Current capital contributions and transfers?	___	___	___
j. Property, plant, and equipment additions and deletions?	___	___	___
k. Net working capital (current assets less current liabilities)?	___	___	___
l. Total assets?	___	___	___
m. Bonds and other material long-term liabilities outstanding (amounts payable solely from operating revenues should be disclosed separately from amounts also potentially payable from other sources)?	___	___	___
n. Total equity?	___	___	___
o. Has disclosure been made of any other material facts necessary to make the GPFS not misleading? [GASB 1, Sec. 2500.107 (GASB Cod. Sec. 2500.107)]	___	___	___

VI. COMBINED STATEMENT OF CASH FLOWS—ALL PROPRIETARY FUND TYPES (AND SIMILAR TRUST FUNDS)

A. Title

1. Is the statement titled "Combined Statement of Cash Flows"? [GASB 9, par. 6 (GASB Cod. Sec. 2450.103)]	___	___	___
--	-----	-----	-----

YES   NO   N/A

B. Format and Policy

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Is a statement of cash flows presented for each period for which results of operations are presented?<br>[GASB 9, par. 6 (GASB Cod. Sec. 2450 .103)]   | _____ | _____ | _____ |
| 2. Does the statement of cash flows report the cash effects during the reported period of the entity's operations, its noncapital financing transactions, its capital and related financing transactions, and its investing transactions?<br>[GASB 9, pars. 7 and 15 (GASB Cod. Sec. 2450.104 and .112)]  | _____ | _____ | _____ |
| 3. Is related information reported on investing, capital, and financing transactions that affect the entity's financial position but do not directly affect cash flows during the period?<br>[GASB 9, par. 7 (GASB Cod. Sec. 2450 .104)]  | _____ | _____ | _____ |
| 4. Was a reconciliation of operating income (or net income if operating income is not separately identified on the operating statement) to net cash flow from operating activities provided about the net effects of operating transactions and other events that affect operating income and operating cash flows in different periods?<br>[GASB 9, par. 7 (GASB Cod. Sec. 2450 .104)] | _____ | _____ | _____ |
| 5. Does the statement of cash flows explain the changes in cash and cash equivalents regardless of whether there are restrictions on their use?<br>[GASB 9, par. 8 (GASB Cod. Sec. 2450 .105)]  | _____ | _____ | _____ |
| 6. Does the statement use a descriptive term such as cash or cash and cash equivalents rather than the term funds?<br>[GASB 9, par. 8 (GASB Cod. Sec. 2450 .105)]   | _____ | _____ | _____ |

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
7. Did the entity disclose its policy concerning which short-term highly liquid investments it will treat as cash equivalents? [GASB 9, par. 11 (GASB Cod. Sec. 2450 .108)]	---	---	---
8. If there was a change in policy was it considered a change in accounting principle reported by restating financial statements for earlier years presented for comparative purposes? [GASB 9, par. 11 (GASB Cod. Sec. 2450 .108)]	---	---	---
<b>C. Classification of Cash Receipts and Cash Payments</b>			
1. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities:			
a. Cash inflows from sales of goods or services?	---	---	---
b. Cash receipts from quasi-external operating transactions with other funds?	---	---	---
c. Cash receipts from grants for specific activities that are considered to be operating activities of the grantor government?	---	---	---
d. Cash receipts from other funds for reimbursement of operating transactions?	---	---	---
e. Cash payments to acquire materials for providing services and manufacturing goods for resale?	---	---	---
f. Cash payments to other suppliers for other goods or services?	---	---	---
g. Cash payments to employees for services?	---	---	---
h. Cash payments for grants to other governments or organizations for specific activities that are considered to be operating activities of the grantor government?	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
i. Cash payments for taxes, duties, fines, and other fees or penalties?	___	___	___
j. Cash payments for quasi-external operating transactions with other funds, including payments in lieu of taxes?	___	___	___
k. All other cash receipts and payments that do not result from transactions defined as capital and related financing, non-capital financing, or investing activities? [GASB 9, pars. 17-18 (GASB Cod. Sec. 2450 .114 and .115)]	___	___	___
2. Are transactions of loan programs undertaken to fulfill a governmental responsibility classified as transactions from operating activities? [GASB 9, par. 19 (GASB Cod. Sec. 2450 .116)]	___	___	___
3. Are cash receipts and payments for the following transactions classified as cash flows from noncapital financing activities:			
a. Proceeds from issuing bonds, notes, and other short- or long-term borrowing not clearly attributable to acquisition, construction, or improvement of capital assets?	___	___	___
b. Cash receipts from grants or subsidies except those specifically restricted for capital purposes and those for specific activities that are considered to be operating activities of the grantor government?	___	___	___
c. Cash received from other funds except those amounts that are clearly attributable to acquisition, construction, or improvement of capital assets, quasi-external operating transactions, and reimbursement for operating transactions?	___	___	___
d. Cash received from property and other taxes collected for the governmental enterprise and not specifically restricted for capital purposes?	___	___	___

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
e. Repayments of amounts borrowed for purposes other than acquiring, constructing or improving capital assets?	___	___	___
f. Interest payments to lenders and other creditors on amounts borrowed or credit extended for purposes other than acquiring, constructing, or improving capital assets?	___	___	___
g. Cash paid as grants or subsidies to other governments or organizations, except those for specific activities that are considered to be operating activities of the grantor government?	___	___	___
h. Cash paid to other funds, except for quasi-external operating transactions? [GASB 9, pars. 21-22 (GASB Cod. Sec. 2450 .118 and .119)]	___	___	___
4. Are cash receipts and cash payments for the following transactions classified as cash flows from capital and related financing activities:			
a. Proceeds from issuing or refunding bonds, mortgages, notes, and other short- or long-term borrowing clearly attributable to the acquisition, construction, or improvement of capital assets?	___	___	___
b. Receipts from capital grants awarded to the governmental enterprise?	___	___	___
c. Receipts from contributions made by other funds, other governments, and other organizations or individuals for the specific purpose of defraying the cost of acquiring, constructing, or improving capital assets?	___	___	___
d. Receipts from sales of capital assets; also, proceeds from insurance on capital assets that are stolen or destroyed?	___	___	___
e. Receipts from special assessments or property and other taxes levied specifically to finance the construction,			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
acquisition, or improvement of capital assets?	---	---	---
f. Payments to acquire, construct, or improve capital assets?	---	---	---
g. Repayments or refundings of amounts borrowed specifically to acquire, construct, or improve capital assets?	---	---	---
h. Other principal payments to vendors who have extended credit to the governmental enterprise directly for purposes of acquiring, constructing, or improving capital assets?	---	---	---
i. Cash payments to lenders and other creditors for interest directly related to acquiring, constructing, or improving capital assets? [GASB 9, pars. 24-25 (GASB Cod. Sec. 2450 .121 and .122)]	---	---	---
5. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities?	---	---	---
a. Receipts from collections of loans (except program loans) made by the governmental enterprise and sales of other entities' debt instruments (other than cash equivalents) that were purchased by the governmental enterprise?	---	---	---
b. Receipts from sales of equity instruments and from returns of investment in those instruments?	---	---	---
c. Interest and dividends received as returns on loans (except program loans), debt instruments of other entities, equity securities, and cash management of investment pools?	---	---	---
d. Withdrawals from investment pools that the governmental enterprise is not using as demand accounts?	---	---	---
e. Disbursements for loans (except program loans) made by the governmental enterprise and payments to acquire	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
debt instruments of other entities (other than cash equivalents)?	—	—	—
f. Payments to acquire equity instruments?	—	—	—
g. Deposits into investment pools that the governmental enterprise is not using as demand accounts? [GASB 9, pars. 27-28 (GASB Cod. Sec. 2450 .124 and .125)]	—	—	—

D. Content and Form

1. Does the statement of cash flows report net cash provided or used in each of the four categories, as well as the net ef- fect of those flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents? [GASB 9, par. 30 (GASB Cod. Sec. 2450 .127)]	—	—	—
2. In reporting cash flows from operating activities were major classes of gross cash receipts and gross cash payments and their arithmetic sum, the net cash flow from operating activities (the direct method), reported? [GASB 9, par. 31 (GASB Cod. Sec. 2450 .128)]	—	—	—
3. If "yes," were the following classes of operating cash receipts and payments sep- arately reported:			
a. Cash receipts from customers?	—	—	—
b. Cash receipts from quasi-external operating transactions with other funds?	—	—	—
c. Other operating cash receipts, if any?	—	—	—
d. Cash payments to other suppliers of goods or services?	—	—	—
e. Cash payments to employees for ser- vices?	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
f. Cash payments for quasi-external operating transactions with other funds, including payments in lieu of taxes?	---	---	---
g. Other operating cash payments, if any? [GASB 9, par. 31 (GASB Cod. Sec. 2450 .128)]	---	---	---
4. Were net cash flows from operating activities reported indirectly by adjusting operating income (or net income if operating is not separately identified on the operating statement) to reconcile it to net cash flow from operating activities? [GASB 9, par. 32 (GASB Cod. Sec. 2450 .129)]	---	---	---
a. If yes was the following done:			
(1) Was operating income adjusted to remove the effects of depreciation, amortization, and other deferrals of past operating cash receipts and payments, such as changes during the period in inventory, deferred revenue, and the like, and all accruals of expected future operating cash receipts and payments, such as changes during the period in receivables and payables?	---	---	---
(2) If the reconciliation was to net income rather than operating income, were the effects of all items whose cash effects were capital and related financing, noncapital financing, or investing cash flows removed? [GASB 9, par. 32 (GASB Cod. Sec. 2450 .129)]	---	---	---
5. Was a reconciliation of operating income (or net income if operating income is not separately identified on the operating statement) to net cash flow from operating activities provided regardless of whether the direct or indirect method of reporting net cash flow from operating activities was used? [GASB 9, par. 33 (GASB Cod. Sec. 2450 .130)]	---	---	---



YES   NO   N/A

6. Did the reconciliation separately report all major classes of reconciling items, at a minimum, changes during the period in receivables pertaining to operating activities, in inventory, and in payables pertaining to operating activities?  
[GASB 9, par. 33 (GASB Cod. Sec. 2450 .130)]

\_\_\_\_\_

7. If the direct method was used was the reconciliation of operating income (or net income if operating income is not separately identified on the operating statement) to net cash flow from operating activities provided in a separate schedule?  
[GASB 9, par. 34 (GASB Cod. Sec. 2450 .131)]

\_\_\_\_\_

8. If the indirect method was used was the reconciliation reported within the operating activities section of the statement of cash flows or provided in a separate schedule?  
[GASB 9, par. 33 (GASB Cod. Sec. 2450 .130)]

\_\_\_\_\_

9. If the reconciliation was presented within the operating activities section of the statement of cash flows, were all the adjustments to operating income (or net income if operating income is not separately identified on the operating statement) to determine cash flow from operating activities clearly identified as reconciling items?  
[GASB 9, par. 34 (GASB Cod. Sec. 2450 .131)]

\_\_\_\_\_

E. Noncash Investing, Capital, and Financing Activities

1. Was information about all investing, capital, and financing activities of a governmental enterprise during a period that affected recognized assets or liabilities but did not result in cash receipts or cash payments for the period reported?  
[GASB 9, par. 37 (GASB Cod. Sec. 2450 .134)]

\_\_\_\_\_

- |   | <u>YES</u> | <u>NO</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 2. Was the information presented in a separate schedule (narrative or tabular)?<br>[GASB 9, par. 37 (GASB Cod. Sec. 2450 .134)]                   | —          | —         | —          |
| 3. Did it clearly describe the cash and non-cash aspects of transactions involving similar items?<br>[GASB 9, par. 37 (GASB Cod. Sec. 2450 .134)] | —          | —         | —          |

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APPENDIX A<sup>1</sup>

YES   NO   N/A

A. The Financial Reporting Entity

.01 Component Units

- |   |   |   |   |
|---|---|---|---|
| a. Do the financial statements of the reporting entity provide an overview of the entity based on financial accountability?<br>[GASB 14, par. 42]   | — | — | — |
| b. Does the overview in "A .01 a." above, enable users to distinguish between the primary government and its component units?<br>[GASB 14, par. 42]   | — | — | — |
| c. Does the component unit financial data that are included into a reporting entity's financial statements include the data from all of its component units?<br>[GASB 14, par. 43]  | — | — | — |
| d. If the component units are included in the financial reporting entity by discrete presentation, does the reporting entity's combined balance sheet include one or more columns to display the combined balance sheets of the component units?<br>[GASB 14, par. 44]                        | — | — | — |
| e. Are the discrete column(s) located to the right of the financial data of the primary government, distinguishing between the financial data of the primary government and those of the discretely presented component units by providing descriptive column headings?<br>[GASB 14, par. 44] | — | — | — |
| f. Does the reporting entity's combined statement of revenues, expenditures, and changes in fund balance—governmental funds, include one or more columns to display the revenues, expenditures, and changes in fund balances for discretely   |   |   |   |

---

<sup>1</sup> GASB Statement No. 14, The Financial Reporting Entity, is effective for financial statements for periods beginning after December 15, 1992. This appendix will incorporate the disclosure and reporting requirements in that statement.

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
presented component units that use governmental fund accounting? [GASB 14, par. 45]	_____	_____	_____
g. In "A .01 f." above, are the column(s) of the discretely presented component units located to the right of the financial data of the primary government, distinguishing between the financial data of the primary government and those of the discretely presented component units by providing descriptive column headings? [GASB 14, par. 45]	_____	_____	_____
h. Is the discrete presentation of component units that use proprietary fund accounting the same as the display method in "A .01 d.-f." above, for both the combined statement of revenues, expenses, and changes in retained earnings/fund balances or fund equity and the combined statement of cash flows? [GASB 14, par. 46]	_____	_____	_____
i. If a component unit that uses both governmental and proprietary methods uses a single operating statement approach (all operations are included in one statement), is the results of operations using the other method of accounting reduced to a single amount and presented as a separate line item, such as "Net income from proprietary operations" or "Excess of revenues over expenditures from governmental operations"? [GASB 14, par. 47]	_____	_____	_____
j. Does the reporting entity financial statements for discretely presented component units that use the AICPA College Guide include a statement of changes in fund balances and a statement of current funds revenues, expenditures, and other changes? [GASB 14, par. 48]	_____	_____	_____
k. In "A .01 j." above, are these statements presented in the format described in "A .01 f.-g." if the reporting entity includes institutions that are component units and institutions that are part of the primary government's legal entity? [GASB 14, par. 48]	_____	_____	_____

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
l. In "A .01 j." above, are the discrete columns located to the right of the financial data of the primary government's institutions? [GASB 14, par. 48]	—	—	—
m. If the reporting entity chooses to provide a total column for the primary government, is the column labeled "memorandum only"? [GASB 14, par. 49]	—	—	—
n. If the reporting entity's combined statements include a total column for the reporting entity as a whole, is it labeled "memorandum only"? [GASB 14, par. 49]	—	—	—
o. If the entity provides a total column for the entity as a whole, is a total column for the primary government also presented? [GASB 14, par. 49]	—	—	—
p. Are combining financial statements for discretely presented component units included in the reporting entity's comprehensive annual financial report using the same methodology as combining statements of the fund types of the primary government? [GASB 14, par. 50]	—	—	—
q. In "A .01 p." above, is the data presented for each component unit in the combining statements generally its aggregated totals? [GASB 14, par. 50]	—	—	—
r. If the entity chooses to present more than one column for the discretely presented component units, (for example, separate columns for component units that use governmental fund accounting and those that use proprietary fund accounting), are separate combining statements presented for each column in the combined statements? [GASB 14, par. 50]	—	—	—
s. Is certain information disclosed about each major component unit included in the component units column(s) in the general purpose financial statements (GPFS) by either (a) including the combining state-			

YES   NO   N/A

ments required in "A .01 p.-r." in the reporting entity's GPFS or (b) by presenting condensed financial statements in the notes to the reporting entity's financial statements?

[GASB 14, par. 51]

\_\_\_ \_\_\_ \_\_\_

t. In "A .01 r." above, if the condensed financial statement disclosure approach is taken, at a minimum, are the following details separately presented:

(1) Condensed balance sheet:

(a) Current assets? (Amounts due from the primary government and other component units should be separately identified.)

\_\_\_ \_\_\_ \_\_\_

(b) Property, plant, and equipment (including general fixed assets)?

\_\_\_ \_\_\_ \_\_\_

(c) Amounts to be provided (and available) for the retirement of general long-term debt?

\_\_\_ \_\_\_ \_\_\_

(d) Current liabilities? (Amounts due to the primary government and other component units should be separately identified.)

\_\_\_ \_\_\_ \_\_\_

(e) Bonds and other long-term liabilities outstanding? (Amounts due to the primary government and other component units should be separately identified.)

\_\_\_ \_\_\_ \_\_\_

[GASB 14, par. 51]

(2) Condensed statements of revenues, expenses, and changes in equity for component units that use proprietary fund accounting:

(a) Operating revenues (total revenues from sales of goods or services)? (Sales to the primary government and other component units should be separately identified.)

\_\_\_ \_\_\_ \_\_\_

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(b) Operating expenses? (Depreciation, depletion, and amortization expense should be separately identified.)	___	___	___
(c) Operating income or loss (operating revenues less operating expenses)?	___	___	___
(d) Operating grants, entitlements, and shared revenues?	___	___	___
(e) Transfers to/from the primary government and other component units?	___	___	___
(f) Tax revenues?	___	___	___
(g) Net income or loss (total revenues less total expenses)?	___	___	___
(h) Current capital contributions? [GASB 14, par. 51]	___	___	___
(3) Condensed statements of revenues, expenditures, and changes in fund balances for component units that use governmental fund accounting:			
(a) Revenues?	___	___	___
(b) Current expenditures?	___	___	___
(c) Capital outlay expenditures?	___	___	___
(d) Debt service expenditures?	___	___	___
(e) Transfers to/from the primary government and other component units?	___	___	___
(f) Excess (deficiency) of revenues and expenditures? [GASB 14, par. 51]	___	___	___
u. Is information for all nonmajor discretely presented component units presented in the aggregate? [GASB 14, par. 51]	___	___	___

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
v. Is a component unit included in the reporting entity financial statements using the blending method in either of these circumstances?	---	---	---
(1) The component unit's governing body is substantively the same as the governing body of the primary government?	---	---	---
(2) The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it? [GASB 14, par. 53]	---	---	---
w. Is the general fund of the reporting entity only the general fund of the primary government? [GASB 14, par. 54]	---	---	---
x. Is the general fund of a blended component reported as a special revenue fund? [GASB 14, par. 54]	---	---	---
y. If the intent of the primary government in obtaining a for-profit corporation is to directly enhance its ability to provide governmental services (rather than just as an investment), is the corporation presented as a component unit (rather than as an investment)? [GASB 14, par. 55]	---	---	---
z. Are transfers between the primary government and its blended component units reported as required by GASB Cod. Sec. 1800.102-.107, for interfund transfers? [GASB 14, par. 57]	---	---	---
aa. Are receivables and payables between the primary government and its blended component units reported as amounts due to and due from other funds? [GASB 14, par. 57]	---	---	---
bb. Are balances and transfers between the primary government and component units that are discretely presented reported in accordance with GASB Cod. Sec. 1800.102-			



	<u>YES</u>	<u>NO</u>	<u>N/A</u>
.107, except that the amounts of the balances and transfers should be reported separately from interfund balances and transfers? [GASB 14, par. 57]	—	—	—
cc. Are lease arrangements between the primary government and blended component units reported in accordance with GASB Cod. Sec. L20. 126? [GASB 14, par. 58]	—	—	—
dd. Are capital lease arrangements between the primary government and discretely presented components reported in accordance with GASB Cod. Sec. L20.127? [GASB 14, par. 58]	—	—	—
ee. In A .01 dd. above, are related receivables and payables reported separately from other amounts due to or from component units and separately from capital lease receivables and payables from organizations outside the reporting entity? [GASB 14, par. 58]	—	—	—
ff. If a common fiscal year-end is impractical for the primary government and its component units, does the reporting entity (which reports using the primary government's fiscal year) incorporate financial statements for the component unit's fiscal year-end during the reporting entity's fiscal year? [GASB 14, par. 59]	—	—	—
gg. If transactions between component units that have different fiscal year ends result in inconsistencies in amounts reported as due to or due from, transfer to or transfer from, and so forth, is the nature and amount of those transactions disclosed in the notes to the financial statements? [GASB 14, par. 60]	—	—	—
hh. Is the fiscal year of the component units included in the reporting entity consistent from year to year, and changes in fiscal years disclosed? [GASB 14, par. 60]	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
ii. Do the notes to the reporting entity's financial statements include a brief description of the component units of the financial reporting entity and their relationships to the primary government which includes:			
(1) A discussion of the criteria of including the component units in the financial reporting entity?	—	—	—
(2) How the component units are reported?	—	—	—
(3) Information about how the separate financial statements for the individual component units may be obtained? [GASB 14, par. 61]	—	—	—
jj. Does the reporting entity's general purpose financial statements include the following notes:			
(1) The fund types and account groups of the primary government including its blended component units?	—	—	—
(2) Individual discretely presented component units considering both:			
(a) The unit's significance relative to the total discretely presented component units?	—	—	—
(b) The nature and significance of the unit's relationship to the primary government? [GASB 14, par. 63]	—	—	—
kk. If the financial statements present only the data of the primary government, is it acknowledged that they do not include the data of the component units necessary for reporting in conformity with generally accepted accounting principles? [GASB 14, par. 64]	—	—	—
ll. Do the separately issued financial statements of a component unit acknowledge that it is a component unit of another government? [GASB 14, par. 65]	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
mm. In "A .01 11." above, do the notes to the financial statements identify the primary government in whose financial reporting entity it is included and describe its relationship with the primary government? [GASB 14, par. 65]	___	___	___
.02 Related Organizations			
a. Does the primary government disclose in the notes to the financial statements the nature of its accountability for related organizations?	___	___	___
b. Does the financial statements of the related governmental organization disclose the primary government that it is accountable for and describe its relationship with that primary government? [GASB 14, par. 68]	___	___	___
.03 Joint Ventures			
a. Proprietary funds			
(1) Does the "investment in joint venture" account reported in a proprietary fund report the participating government's equity interest calculated in accordance with the joint venture agreement?	___	___	___
(2) Initially, is the investment in the joint venture reported at cost?	___	___	___
(3) Is the equity interest adjusted for the participant's share of the joint venture's net income or loss, regardless of whether the amount is actually remitted?	___	___	___
(4) In calculating the participant's share of the net income or loss of the joint venture, is any profit on the operating transactions between the proprietary fund and the joint venture eliminated?	___	___	___
(5) Do nonoperating transactions between the joint venture and the proprietary fund increase or decrease the equity interest?	___	___	___

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(6) Is the equity interest reported in the proprietary fund's balance sheet as a single amount?	---	---	---
(7) Is the fund's share of the joint venture's net income or loss reported in its operating statement as a single amount? [GASB 14, par. 73]	---	---	---
b. Governmental funds			
(1) Is all or a portion of the equity interest reported in the general fixed asset account group in accordance with the joint venture agreement?	---	---	---
(2) Is the amount reported in the general fixed asset account group the total equity adjusted for any portion of the equity interest that is included in the balance sheet of the governmental fund?	---	---	---
(3) Do governmental fund operating statements report changes in joint venture equity only to the extent that the amounts received or receivable from the joint venture or the amounts paid or payable to the joint venture satisfy the revenue or expenditure recognition for governmental funds? [GASB 14, par. 74]	---	---	---
c. Regardless of whether there is an equity interest, do joint venture participants make the following disclosures in the notes to the financial statements:			
(1) A general description of each joint venture, including:			
(a) A description of the participating government's ongoing financial interest (including its equity interest, if applicable) or ongoing financial responsibility?	---	---	---
(b) Enough information to allow the reader to evaluate whether the joint venture is accumulating significant financial resources or is			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
experiencing fiscal stress that may cause an additional financial benefit or burden on the participating government in the future?	___	___	___
(c) Information about the availability of separate financial statements of the joint venture? [GASB 14, par. 75]	___	___	___
(2) Disclosure of any other information required by GASB Cod. Sec. 2300.105f? [GASB 14, par. 75]	___	___	___
d. For joint building or finance authorities, if the capital assets are leased back to the participating government, did the government report their respective shares of the assets, liabilities, and operations of the joint venture? [GASB 14, par. 76]	___	___	___
 <p>.04 Jointly Governed Organizations</p> <p>If a participant does not retain an ongoing financial interest or responsibility in the organization, were the disclosures in "A .03 c.(1).(c)." complied with? [GASB 14, par. 77]</p>			
___	___	___	___
 <p>.05 Component Units and Related Organizations with Joint Venture Characteristics</p>			
a. If the participant appoints a voting majority of the organization's governing body (and joint control is precluded because the participant has the ability to make decisions unilaterally) and the organization is either a component unit or a related organization of that participating government, is that organization reported in that participating government's financial statements in accordance with "A .01 a.-w." and "A .02 a.-b." above?	___	___	___
b. Do the other minority participants report their participation in the organization in accordance with "A .03-.04" above?	___	___	___
c. Does the organization itself, when included as a component unit in the majority participant's financial reporting entity,			

YES NO N/A

report any equity interests of the minority participants as fund balance or retained earnings "reserved for minority interests"?

\_\_\_ \_\_\_ \_\_\_

- d. If a jointly controlled organization is considered a component unit of one of the participating governments because of fiscal dependency, is it reported in the same manner as "A .05 a.-c." above?

\_\_\_ \_\_\_ \_\_\_

[GASB 14, par. 78]

.06 Public Entity Risk Pools

Is the guidance in GASB Cod. Sec. C50, "Claims and Judgments" followed?

\_\_\_ \_\_\_ \_\_\_

[GASB 14, par. 79]

.07 Undivided Interests

- a. Does a government that participates in an undivided interest (no entity or organization is created by the participants and two or more parties own property in which title is held individually to the extent of each party's interest) report its assets, liabilities, expenditures/expenses, and revenues that are associated with the joint operation?

\_\_\_ \_\_\_ \_\_\_

- b. If a separate organization is created but there is an undivided interest in specific assets and liabilities and equity interests in the other net resources of the organization (a hybrid arrangement), did the participant report their undivided interest in accordance with the provisions of "A .07 a." and "A .03 a.-b." above?

\_\_\_ \_\_\_ \_\_\_

[GASB 14, par. 80]

APPENDIX B<sup>1</sup>

YES   NO   N/A

B. Additional Questions Included in the President's Council on Integrity & Efficiency (PCIE) Standards Subcommittee Uniform Desk Review Guide for A-128 Audits

1. Is the report free of indications that the auditor is not a CPA, a public accountant licensed on or before December 31, 1970, or a government auditor? (If a question arises concerning the licensing of a public accountant, State licensing authorities should be able to provide the necessary information.) \_\_\_ \_\_\_ \_\_\_  
[GAS, Ch. 3, par. 10]
  
2. Is the report free of indications that the auditor is not independent? If not, follow up to determine if independence was impaired in appearance or in fact. \_\_\_ \_\_\_ \_\_\_  
[GAS, Ch. 3, pars. 11-25]
  
3. If there are questioned or unsupported costs that are material in relation to the financial statements:
  - a. Are they reflected in the financial statements or notes, as appropriate, and does the auditor's report include an explanatory paragraph discussing the uncertainty? \_\_\_ \_\_\_ \_\_\_  
[GASB 10, pars. 7-10, 16, 52-57; SAS 58, pars. 23-73; GASB Cod. Sec. C50.105-.112 (AU 508.23-.33)]
  
  - b. If not appropriately reflected or disclosed in the financial statements, is the opinion properly modified? \_\_\_ \_\_\_ \_\_\_  
[SAS 58, pars. 17-22 (AU 508.17-.22)]

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<sup>1</sup> Appendix B is composed of questions which appear in the President's Council on Integrity & Efficiency (PCIE) Uniform Desk Review Guide for A-128 Audits but are not included in this disclosure checklist. The guide is intended for use by all cognizant agency audit organizations when performing desk reviews of A-128 single audit reports as the cognizant agency. The President's Council on Integrity & Efficiency Standards Subcommittee also issued a Uniform Quality Control Review Guide For A-128 Single Audits. The purpose of that guide is to help assure that the scope of quality reviews (1) is sufficient to fulfill the objective of a QCR and (2) is consistent among cognizant agency audit organizations.

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
4. Are the notes free of disclosures indicating any condition that negatively affects Federal awards or that should be reported to Federal officials? (If not, explain below.)	---	---	---
5. Does the internal fund type have a reasonably low fund equity? <i>(Note: If internal service funds have a significant fund equity, it could be an indication of excessive user fees being charged for central or interagency services, including those services provided to Federal programs. If the reviewer concludes that the financial statements indicate excess user fees, then he/she may want to identify this as an audit lead for follow-up.)</i>	---	---	---
6. Does the auditor's report cover all periods presented in the financial statements? [SAS 58, par. 74 (AU 508.74)]	---	---	---
7. If a modified report was issued due to a scope limitation, was it evaluated to determine the acceptability of the report?	---	---	---
8. Are all programs known by the reviewer to have been received and those identified elsewhere in the report, included in the schedule? <i>(Note: This question is intended to be answered based on the reviewer's prior knowledge and the review of the report. It is not intended that the reviewer conduct research to determine what programs the entity received.)</i>	---	---	---
9. If a modified opinion or a disclaimer on the schedule is issued, evaluate its effect on the acceptability of the report. [SAS 29, par. 6 (AU 551.06)]	---	---	---
10. If noncompliance is reported, do(es) the report(s) on compliance (or accompanying Schedule of Findings and Questioned Costs) for each finding: [ASLGU, Appendix F, par. 13; GAS, Ch. 5, pars. 7-9 and Ch. 7, pars. 33-35, 43, and 55-69]			
a. Indicate the Federal assistance award(s) for which noncompliance was found by award (grant) number and year?	---	---	---



	<u>YES</u>	<u>NO</u>	<u>N/A</u>
b. Identify the specific requirement(s) with which the grantee did not comply, including any requirement to maintain records, by regulatory, statutory or other specific citation?	_____	_____	_____
c. Clearly identify the condition found, including the facts relied on that indicate that noncompliance occurred?	_____	_____	_____
d. Identify the questioned costs associated with each condition of noncompliance, along with an indication of what the questioned costs represent (i.e, how it was computed)?	_____	_____	_____
e. Put the finding in perspective by relating the extent (number and dollar amount) of noncompliance to the number of cases examined, dollar amount tested and the universe?	_____	_____	_____
f. Include recommendations for corrective action to prevent future occurrences of noncompliance?	_____	_____	_____
g. Include pertinent views of responsible officials of the audited entity concerning the findings and recommendations, and what corrective action is planned? <i>(Note: OMB A-128 requires a corrective action plan from the entity. The auditor may reference the corrective action plan, if it is prepared and available to the auditor when preparing the report, to describe the views of responsible officials.)</i>	_____	_____	_____
h. Include the auditor's reasons for rejecting the views of the entity's officials when these views oppose the auditor's findings and conclusions?	_____	_____	_____
i. Contain other information that would be necessary in order for Federal, State, and local officials to determine the effect and cause in order for them to take timely and proper corrective action?	_____	_____	_____
11. Considering the nature and extent of findings reported, does the opinion on major programs appear appropriate?	_____	_____	_____

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
12. Based on the reviewer's knowledge, are all instances of noncompliance disclosed? If not, the report should not be accepted until it is amended.	---	---	---
13. If the report indicates the existence of a separate management letter, was a copy obtained? If not, obtain a copy. [GAS, Ch. 5, pars. .8, .25]	---	---	---
14. Are all instances of noncompliance or material weaknesses in internal control affecting Federal financial assistance that are included in the management letter, disclosed in the reports on compliance and internal control for Federal assistance programs? [ASLGU, Appendix F, par. 13]	---	---	---
15. Has the recipient provided a corrective action plan to eliminate material noncompliance with Federal laws and material weaknesses in internal controls? [ASLGU, Appendix F, par. 13]	---	---	---
16. If the recipient has determined that corrective action is not warranted, has it provided a statement describing the reason(s) that corrective action is not necessary? [ASLGU, Appendix F, par. 13]	---	---	---

**FSP 3300**  
**Financial Section—Auditor's Report**

This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid. Accordingly, the notice on page iii is incorporated herein by reference.

**Explanation of References:**

- GAS = Government auditing standards—Those auditing standards set forth the publication Government Auditing Standards ("Yellow Book"), issued by GAO, 1988 Revision
- GAO = General Accounting Office
- SAS = Statements on Auditing Standards
- AU = Reference to section number in AICPA Professional Standards (Vol. 1) of SAS cited
- GASB = Codification of Governmental Accounting and Financial Reporting Standards, second edition, by the Governmental Accounting Standards Board (revised May 1990)
- SFAS = Statements of Financial Accounting Standards
- FASB = Reference to FASB number in Accounting Standards, Original Pronouncements or to Accounting Standards, Current Text
- ASLGU = Audit and Accounting Guide, AICPA, 1986, Audits of State and Local Governmental Units
- SOP = AICPA Statement of Position

**CHECKLIST QUESTIONNAIRE**

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	<u>YES</u>	<u>NO</u>	<u>N/A</u>
1. Does the auditor's report include appropriate:			
a. Addressee? [SAS 58, par. 9 (AU 508.09)]	---	---	---
2. Does the report of the independent auditor precede the basic financial statements? [GASB 1, Sec. 2200.102 (GASB Cod. Sec. 2200.102)]	---	---	---
3. Does the auditor's report:			
a. Adequately identify the governmental reporting entity? [GASB 1, Sec. 2100.122 (GASB Cod. Sec. 2100.122)]	---	---	---
b. Cover all funds and account groups of the reporting entity and include both (a) the general purpose financial statements (GPFS) by fund type and account group and (b) com-			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
binning statements by fund type and individual fund statements? [GASB 1, Sec. 2100.102, 2200.100 and .101 (GASB Cod. Sec. 2100.102, 2200.100 and .101)]	---	---	---
c. Indicate that all includable component units have been audited? [ASLGU, Ch. 18, par. 29]	---	---	---
d. Indicate the division of responsibility and the magnitude of the portion of the financial statements audited by the other auditor? [SAS 58, pars. 12-13 and SAS No. 1, Sec. 543, par. 7 (AU 508.12-.13 and AU 543.07)]	---	---	---
e. [If the answer to 3d is "yes,"] disclose the magnitude of the financial statements audited by the other auditors, as well as identification of the fund types and account groups in which the amounts are included? [SAS 1, par. 543 (AU 543.03); SAS 58, par. 12 (AU 508.12); ASLGU, Ch. 18, par. 38]	---	---	---
f. Indicate, in the scope section, the division of responsibility between that portion of the work they conducted and that conducted by others, and the magnitude of the audit work completed by others when the auditors decided to rely on the work of others, but do not take full responsibility for that work? [GAS, Ch. 3, p. 16]	---	---	---
g. Cover the general purpose or component unit financial statements? [ASLGU, Ch. 18, pars. 30-31]	---	---	---
h. Cover a period of not more than one year?	---	---	---
i. If the audit period covers more than one year:			
(1) Is the audit biennial, covering both years within the period?	---	---	---
(2) Does the auditee have an administrative policy (allowable only for fiscal years ending before January 1, 1987) or a requirement by constitution or statute for less frequent audits? [ASLGU, Ch. 17, par. 25]	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
4. If the auditor is not independent, has the appropriate disclaimer been expressed regardless of the extent of services provided? [SAS 1, Sec. 220 (AU 220)]	—	—	—
5. Does the reporting language conform with the auditor's standard report on:			
a. Financial statements of a single year or period? [SAS 58, par. 8 (AU 508.08)]	—	—	—
b. Comparative financial statements? [SAS 58, par. 8 (AU 508.08); ASGLU, Ch. 18, par. 27]	—	—	—
6. Does the report include appropriate language in respect of the following:			
a. Date (or dual dates) of the report? [SAS 1, sec. 530 (AU 530); SAS 26, pars. 15-17 (AU 504.15-.17); SAS 58, par. 74 (AU 508.74)]	—	—	—
b. Comparative financial statements with differing opinions on individual financial statements? [SAS 58, pars. 74-76 (AU 508.74-.76)]	—	—	—
c. Does the report on the general purpose or component unit financial statements cover all the required matters concerning the financial position and results of financial operations of the entire governmental unit and, if applicable, changes in financial position for all proprietary and similar trust funds? [ASLGU, Ch. 18, par. 21]	—	—	—
d. Does the wording of the report contain a statement that the examination was made in accordance with generally accepted government auditing standards as well as in accordance with generally accepted auditing standards? [GAS, Ch. 5, p. 1]	—	—	—
e. If the report is on one basic financial statement, does the report indicate that there are no scope limitations? [SAS 58, par. 47]	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
f. Audited and unaudited financial statements in comparative form? [SAS 26, pars. 9 and 27 (AU 504.14-.17)]	—	—	—
g. Is abuse or illegal acts that auditors become aware of covered in either the overall or a separate report if including them in the overall report would compromise investigation or legal proceedings or otherwise preclude the report from being released to the public? [GAS, Ch. 7, p. 9]	—	—	—
7. Has explanatory language been added to the standard auditor's report if:			
a. The auditor's opinion is based in part on the report of another auditor? [SAS 58, pars. 12 and 13 (AU 508.12-.13)]	—	—	—
b. The financial statements contain a departure from an accounting principle promulgated by a body designated by the AICPA Council to establish such principles? [SAS 58, pars. 14 and 15 (AU 508.14-.15)]	—	—	—
c. The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the auditor's report? [SAS 58, pars. 16-33 (AU 508.16-.33)]	—	—	—
d. The auditor concludes substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time remains and that conclusion is expressed through the use of the phrase "substantial doubt about its (the entity's) ability to continue as a going concern"? [SAS 64, par. 1 (AU 341.12)]	—	—	—
e. There has been a material change between periods in accounting principles or in the method of their application? [SAS 58, pars. 34-36 (AU 508.34-.36)]	—	—	—
f. In an updated report on comparative financial statements the opinion(s) on the prior period(s) is different from the one(s) previously expressed? [SAS 58, pars. 77, 78 and 81-83 (AU 508.77-.78 and .81-.83)]	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
g. Supplementary information required by the Financial Accounting Standards Board (FASB) or the Governmental Accounting Standards Board (GASB) has been omitted, the presentation of such information departs materially from FASB or GASB guidelines, the auditor is unable to complete prescribed procedures with respect to such information, or the auditor is unable to remove substantial doubts about whether the supplementary information conforms to FASB or GASB guidelines? [SAS 52, par. 2 (AU 558)]	---	---	---
h. Other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements? [SAS 8 (AU 550)]	---	---	---
i. A matter regarding the financial statements needs to be emphasized? [SAS 58, par. 37 (AU 508.37)]	---	---	---
8. If the financial statements of a prior period have been audited by a predecessor auditor whose report is not presented, has the successor auditor indicated in the introductory paragraph:			
a. The financial statements of the prior period were audited by another auditor?	---	---	---
b. The date of the report?	---	---	---
c. The type of report issued by the predecessor auditor?	---	---	---
d. If the report was other than a standard report, the substantive reasons therefor? [SAS 64, par. 2 (AU 508.83)]	---	---	---
9. If the financial statements have been restated, does the introductory paragraph indicate a predecessor auditor reported on the financial statements of the prior period before restatement? [SAS 64, par. 2 (AU 508.83)]	---	---	---
10. If the successor auditor is engaged to audit and applies sufficient procedures to satisfy himself or herself as to the appropriateness of the re-			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
statement adjustments, did he or she report on it in accordance with SAS No. 64, par. 2? [SAS 64, par. 2 (AU 508.83)]	_____	_____	_____
11. If a modified report was issued due to a scope limitation:			
a. Does the report include an explanatory paragraph that precedes the opinion paragraph and is referred to in both the scope and opinion paragraphs?	_____	_____	_____
b. Does the opinion paragraph indicate that the qualification pertains to the possible effects on the financial statements and not to the scope limitation itself (i.e., the qualification is because the auditor is unable to reach a conclusion on one or more matters material to the financial statements, rather than because his or her procedures were restricted)? [SAS 58, pars. 43 and 44 (AU 508.43-.44)]	_____	_____	_____
12. Has a qualified opinion or disclaimer of opinion been considered if:			
a. Scope limitations precluded application of one or more auditing procedures considered necessary in the circumstances? [SAS 31, par. 22 (AU 326.23), SAS 58, pars. 40-44 (AU 508.40-.44)]	_____	_____	_____
b. As a result of the criteria established by GASB Cod. Sec. 2100, many governmental units' financial reports have been expanded to include component units that were previously reported separately. Where the financial statements of those units are unaudited, has the auditor's opinion on the general purpose financial statements been qualified or disclaimed, depending on the materiality of the unaudited component unit to the governmental unit's financial statements? [ASLGU, Ch. 18, par. 37]	_____	_____	_____
13. If the auditor is engaged to audit the combining and individual fund and account group financial statements in addition to a GPFS or CUFS, does the auditor's opinion address each presentation as a primary statement? If supporting schedules accompany those financial statements, does the auditor's opinion state whether the information			



	<u>YES</u>	<u>NO</u>	<u>N/A</u>
<p>in those schedules is presented fairly in conformity with GAAP in all material respects in relation to the financial statements of each of the individual funds and account groups taken as a whole or disclaim an opinion on such information?</p> <p>[ASLGU, Ch. 18, par. 31]</p>	—	—	—
<p>14. If additional information, including statistical data, accompanies the general purpose or component unit financial statements, does the auditor indicate in his report the degree of responsibility, if any, he is taking?</p> <p>[SAS 29, par. 5 (AU 551.05)]</p>	—	—	—
<p>15. Has a qualified opinion or adverse opinion been expressed if the following circumstances are present:</p>			
<p>a. Lack of conformity with generally accepted accounting principles (including inadequate disclosure)?</p> <p>[SAS 32, par. 3 (AU 431.03); SAS 58, pars. 49-66 (AU 508.49-.66); SAS 54, par. 18 (AU 317.18)]</p>	—	—	—
<p>b. The reporting entity has included some, but not all, component units in the reporting entity financial statements?</p> <p>[ASLGU, Ch. 18, par. 33]</p>	—	—	—
<p>c. If financial statements for funds, fund types or account groups that should be included in the GPFs or CUFS (such as the general fixed assets account group or an enterprise fund) are omitted, has the auditor expressed a qualified or an adverse opinion because of a GAAP departure?</p> <p>[ASLGU, Ch. 18, par. 34]</p>	—	—	—
<p>(1) Does the qualified or adverse auditor's report include an explanatory paragraph that describes the omitted fund or account group?</p>	—	—	—
<p>(2) Does the explanatory paragraph disclose the effects on the financial statements, if reasonably determinable?</p> <p>[ASLGU, Ch. 18, par. 34]</p>	—	—	—
<p>16. If the auditors did not follow an applicable standard was the scope section of their report</p>			

YES   NO   N/A

modified to disclose the applicable standard was not followed, the reasons therefor, and the known effect not following the standard had on the result of the audit?  
[GAS, Ch. 5, p. 1-2]

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17. Where the circumstances are such that an oversight unit issues its separate component unit financial statements that exclude all other component units considered a part of the reporting entity, are the limitations of the financial statements clearly disclosed so as to prevent the misinterpretation that these are the complete financial statements of the reporting entity?  
[ASLGU, Ch. 18, par. 32]

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18. If the auditor has been engaged to audit financial statements of only a specified fund or group of funds that are not intended to present fairly financial position, results of operations, or changes in financial position of either the reporting entity or component unit in conformity with GAAP, does the auditor's report include a middle paragraph calling attention to the fact that the financial statements are not intended to present financial position and results of operations of the reporting entity or component unit?  
[ASLGU, Ch. 18, par. 35]

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19. If the independent auditor was engaged to audit financial statements presented in conformity with neither GAAP nor any other comprehensive basis of accounting, was the standard form of report used and modified because of the departure from GAAP?  
[ASLGU, Ch. 18, par. 40]

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20. Where local or state governmental regulations require that larger CPA firms employ minority or smaller firms or both to participate in the audit, is the report on the examination signed by the individual or firm that has complied with GAAS and is in a position to justify being the only signatory of the report?  
[ASLGU, Ch. 18, par. 41; SAS 1, sec. 543, par. 4 (AU 543.04)]

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21. If a qualified opinion, adverse opinion or disclaimer of opinion is expressed:

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
a. Are all the substantive reasons for the opinion or disclaimer disclosed? [SAS 58, pars. 39 and 71 (AU 508.39 and .71)]	---	---	---
b. Is the reporting language clear and appropriate for the—			
(1) Qualified opinion? [SAS 58, pars. 38-66 (AU 508.38-.66)]	---	---	---
(2) Adverse opinion? [SAS 58, pars. 67-69 (AU 508.67-.69)]	---	---	---
(3) Disclaimer of opinion? [SAS 58, pars. 70-72 (AU 508.70-.72)]	---	---	---
22. Does the report include modification, if applicable, for the following:			
a. Conditions that precluded application of necessary auditing procedures to opening inventories and/or long-term investments? [SAS 58, par. 42 (AU 508.42)]	---	---	---
b. Inadequate disclosure? [SAS 58, par. 55 (AU 508.55)]	---	---	---
c. Client representations about related party transactions? [SAS 45, par. 2 (AU 334.12)]	---	---	---
d. Client's refusal to provide written representation? [SAS 19, par. 11 (AU 333.11)]	---	---	---
e. Limitations on scope of lawyer's response? [SAS 12, pars. 12-14 (AU 337.12-.14)]	---	---	---
f. Unresolved matters involving specialists? [SAS 11, par. 9 (AU 336.09)]	---	---	---
g. Financial statements materially affected by an irregularity? [SAS 53, par. 26 (AU 316.26)]	---	---	---
h. Illegal acts by clients? [SAS 54 (AU 317)]	---	---	---
i. Material misstatement of the financial statements? [SAS 47, par. 31 (AU 312.31)]	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
j. Financial statements issued before the effective date of a Statement of Governmental Accounting and Financial Reporting Standards (GAFRS) or Statement of Financial Accounting Standards (SFAS) when disclosure is not made of the effect of a restatement which will be required in the future as a result of the GASB or FASB Statement? [Interpretation 3 of SAS 1, section 410 (AU 9410.13-.15)]	---	---	---
23. Has a piecemeal opinion been avoided? [SAS 62, par. 14 (AU 623.14); SAS 58, par. 73 (AU 508.73)]	---	---	---
24. For Special Reports, have the provisions of SAS Nos. 35 and 62 been complied with regarding:			
a. Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? [SAS 62, pars. 2-8 (AU 623.02-.08)]	---	---	---
b. Specified elements, accounts or items of a financial statement? [SAS 62, pars. 11-18 (AU 623.11-.18); SAS 35 (AU 622)]	---	---	---
c. Compliance with aspects of agreements or regulatory requirements relating to audited financial statements? [SAS 62, pars. 19-21 (AU 623.19-.21)]	---	---	---
d. Financial presentations to comply with contractual or regulatory provisions? [SAS 62, pars. 22-30 (AU 623.22-.30)]	---	---	---
e. Financial information that requires a prescribed form of auditor's report? [SAS 62, pars. 32-33 (AU 623.32-.33)]	---	---	---
25. Was additional explanatory language added to the Special Report in the following situations?			
a. If there has been a lack of consistency in accounting principles was an explanatory paragraph added to the report, following the opinion paragraph, that describes the change and refers to the note to the financial presentation (or specified elements, accounts, or items thereof) that discusses the change and its effect thereon?	---	---	---

YES   NO   N/A

- b. If the financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the auditor's report, did the auditor add an explanatory paragraph after the opinion paragraph if the uncertainties are considered relevant to the presentation? \_\_\_\_\_
- c. If the auditor has substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time not to exceed one year beyond the date of the financial statements did the auditor add an explanatory paragraph after the opinion paragraph of the report only if the auditor's substantial doubt is relevant to the presentation? \_\_\_\_\_
- d. When the auditor decides to make reference to the report of another auditor as a basis, in part, for his or her opinion did he or she disclose that fact in the introductory paragraph of the report and refer to the report of the other auditors in expressing his or her opinion? \_\_\_\_\_
- e. If the auditor expresses an opinion on prior-period financial statements (or specified elements, accounts, or items thereof), that is different from the opinion he or she previously expressed on that same information did he or she disclose all of the substantive reasons for the different opinion in a separate explanatory paragraph preceding the opinion paragraph of the report?  
[SAS 62, par. 31 (AU 623.31)] \_\_\_\_\_
26. If the auditor is reporting on financial statements prepared on a comprehensive basis of accounting other than generally accepted accounting principles, has the auditor considered whether the financial statements (including the accompanying notes) include all informative disclosures that are appropriate for the basis of accounting used?  
[SAS 62, par. 9 (AU 623.09)] \_\_\_\_\_
27. Do the notes include a summary of significant accounting policies that discusses the basis of presentation and describes how that basis dif-

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
fers from generally accepted accounting principles? [SAS 62, par. 9 (AU 623.09)]	_____	_____	_____
28. When the financial statements prepared on an other comprehensive basis of accounting contain items that are the same or similar to those in financial statements prepared in conformity with generally accepted accounting principles, were similar disclosures made? [SAS 62, par. 10 (AU 623.10)]	_____	_____	_____
29. Were disclosures made related to matters that are not specifically identified on the face of the financial statements, such as, (a) related party transactions, (b) restrictions on assets and owners' equity, (c) subsequent events, and (d) uncertainties? [SAS 62, par. 10 (AU 623.10)]	_____	_____	_____
30. Does the report on compliance with laws and regulations cover the auditor's tests of compliance with laws and regulations and include all significant instances of noncompliance and abuse? [GAS, Ch. 5, p. 2 and Ch. 7, p. 7]	_____	_____	_____
31. Does the compliance report contain:			
a. A statement of positive assurance for those items which were tested for compliance and negative assurance on those items not tested?	_____	_____	_____
b. All material instances of noncompliance, and all instances or indications of illegal acts which could result in criminal prosecution? [GAS, Ch. 5, p. 2 and Ch. 7, p. 7; SAS 68, par. 21 (AU 801.21)]	_____	_____	_____
32. Does the report on compliance with laws and regulations conform to the provisions of SAS 68, par. 24? [SAS 68, par. 24 (AU 801.24)]	_____	_____	_____
33. When the financial audit did not require tests of compliance with laws and regulations, did the report contain a statement that the auditor did not test for compliance with laws and regulations? [GAS, Ch. 5, p. 3]	_____	_____	_____

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
34. If the auditing procedures disclosed material instances of noncompliance, have the statements of positive and negative assurance been modified? [SAS 68, par. 27 (AU 801.27)]	—	—	—
35. Does the qualified report include:			
a. The definition of material instances of non-compliance?	—	—	—
b. An identification of material instances of noncompliance noted?	—	—	—
c. A statement that the noncompliance noted was considered in forming an opinion on whether the entity's financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles? [SAS 68, par. 27 (AU 801.27)]	—	—	—
36. If the report contains material instances of noncompliance, is a statement included about whether the misstatements have been corrected or a statement describing the effect of such misstatements on his or her report on the basic financial statements? [SAS 68, par. 28 (AU 801.28)]	—	—	—
37. If the report contains immaterial instances of noncompliance are they reported in a separate communication to the audited entity? [SAS 68, par. 30 (AU 801.30)]	—	—	—
38. If a separate letter describing immaterial instances of noncompliance has been issued, is the report that was prepared in accordance with paragraphs 24, 26 or 27 of SAS 68 modified to include a statement such as the following, "We noted certain immaterial instances of noncompliance that we have reported to the management of [name of entity] in a separate letter dated August 15, 19X1"? [SAS 68, par. 30 (AU 801.30)]	—	—	—
39. Does the auditor's report on internal control cover their understanding of the entity's internal control structure and the assessment of control risk made as part of a financial statement audit, or a financial related audit? [GAS, Ch. 5, p. 6]	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
40. Does the report on the internal control structure include, as a minimum:			
a. The scope of the auditor's work in obtaining an understanding of the internal control structure and in assessing the control risk?	—	—	—
b. The entity's significant internal controls or control structure established to ensure compliance with laws and regulations that have a material impact on the financial statements and results of the financial related audit?	—	—	—
c. The reportable conditions, including the identification of material weaknesses, identified as a result of the auditor's work in understanding and assessing the control risk? [GAS, Ch. 5, pp. 5-6 and Ch. 7, pp. 5-6]	—	—	—
41. Does the report on the internal control structure comply to the provisions of SAS 68, par. 40? [SAS 68, par. 40 (AU 801.40)]	—	—	—
42. If no reportable conditions were noted during the audit was a report in accordance with SAS 68, par. 42 issued? [SAS 68, par. 42 (AU 801.42)]	—	—	—
43. If an audit was required by the Single Audit Act, does the auditor's report(s) include references to the GAO's Government Auditing Standards (1988 Revision), where required, and contain the following:			
a. The auditor's report on an audit of the general purpose or basic financial statements of the entity as a whole, or the department, agency, or establishment covered by the audit? [ASLGU, Ch. 17, par. 28 and Ch. 23, par. 1]	—	—	—
b. The auditor's report on a supplementary schedule of the entity's Federal financial assistance programs, showing, at a minimum, total expenditures for each federal assistance program? [ASLGU, Ch. 17, par. 29 and Ch. 23, par. 1]	—	—	—



	<u>YES</u>	<u>NO</u>	<u>N/A</u>
c. The additional information accompanying the financial statements? [SAS 8, par. 6 (AU 551.06)]	---	---	---
d. A Schedule of Federal Financial Assistance Program Expenditures which identifies:			
(1) Programs by CFDA number?	---	---	---
(2) Total expenditures for each Federal financial assistance program by grantor and whether the program is direct or indirect?	---	---	---
(3) Total Federal financial assistance expended? [ASLGU, Ch. 23, pars. 6-7]	---	---	---
(4) The value of food stamps issued and commodities distributed?	---	---	---
(5) The existence and value of Federal guarantee, loan or insurance programs? [ <u>Questions and Answers on the Single Audit Provisions of OMB Circular A-128 of State and Local Governments</u> , published by OMB November, 1987]	---	---	---
e. If a modified or disclaimer of opinion on the basic financial statements was issued, did the auditor consider the effects on the Schedule of Federal Financial Assistance? <i>(Note: If the report on the basic financial statements is qualified, the auditor should consider the effect of the qualification on the Schedule. If the report on the basic financial statements is adverse or a disclaimer, the auditor should not express an opinion on the Schedule.)</i> [SAS 29, par. 10 (AU 551.10)]	---	---	---
f. Does the report include either an opinion on whether the schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole or a disclaimer of opinion? [SAS 29, par. 6 (AU 551.06)]	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
g. If a separate report is issued, does it state that the audit was conducted in accordance with generally accepted governmental auditing standards and generally accepted auditing standards? [GAS, Ch. 5, p. 1]	---	---	---
h. The auditor's report on internal controls (accounting and administrative) identifying:			
(1) The entity's significant internal accounting controls and those controls designed to provide reasonable assurance that Federal programs are being managed in compliance with laws and regulations? [SOP 90-9]	---	---	---
(2) The controls that were evaluated? (Note: Controls over major federal programs must be studied and evaluated, no exceptions permitted.)	---	---	---
(3) The controls that were not evaluated?	---	---	---
(4) The material weaknesses identified as a result of the evaluation? [ASLGU, Appendix F; OMB Circular No. A-128, item 13a(2)]	---	---	---
44. If an entity falls under the Single Audit Act, for major programs, does the report on compliance with specific requirements comply with the provisions of SAS 68, par. 80? [SAS 68, par. 80 (AU 801.80)]	---	---	---
45. If the opinion is other than unqualified, is it clear which findings result in the opinion modification and to which program(s) the modification pertains? [SAS 68, pars. 82-86 (AU 801.82-.86)]	---	---	---
46. If restrictions on the scope of an audit on compliance require the auditor to qualify or disclaim his or her opinion, are the reasons for such qualification or disclaimer described in the auditor's report? [SAS 68, par. 82 (AU 801.82)]	---	---	---
47. If the auditor is disclaiming his or her opinion due to a scope limitation:			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
a. Were the reasons indicated, in a separate paragraph, why the audit did not comply with generally accepted auditing standards, <u>Government Auditing Standards</u> issued by the Comptroller General of the United States, or OMB Circular A-128?	_____	_____	_____
b. Did the auditor state that the scope of his or her audit was not sufficient to warrant the expression of an opinion?	_____	_____	_____
c. Did the auditor disclose any reservations he or she had regarding compliance with applicable laws and reservations? [SAS 68, par. 84 (AU 801.84)]	_____	_____	_____
48. If an auditor expresses a qualified or adverse opinion due to noncompliance with requirements governing a major federal financial assistance program did the auditor state the basis for such an opinion in his or her report? [SAS 68, par. 85 (AU 801.85)]	_____	_____	_____
49. If an entity falls under the Single Audit Act, whether or not it has a major program, does the report on compliance with general requirements comply with the provisions of SAS 68, par. 51? [SAS 68, par. 51 (AU 801.51)]	_____	_____	_____
50. If an entity falls under the Single Audit Act, for nonmajor programs does the report on compliance specific requirements comply with the provisions of SAS 68, par. 89 (AU 801.89)? [SAS 68, par. 89 (AU 801.89)]	_____	_____	_____
51. When appropriate, did the auditor issue a separate report on fraud, abuse, or illegal acts, or indications of such acts? [ASLGU, Ch. 23, par. 1]	_____	_____	_____
52. If required by contractual obligations, were findings presented in accordance with the guidance in the GAO's Standards for Audit (1988 Revision) regarding reporting on performance audits? [GAS, Ch. 2, pp. 3-5]	_____	_____	_____
53. If the auditors are not able to follow an applicable standard and are not able to withdraw from an audit, did the auditors disclose in the scope section of their report the fact that an applicable standard was not followed, the reasons	_____	_____	_____

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
therefor, and the known effect not following the standard had on the results of the audit? [GAS, Ch. 3, p. 10]	---	---	---
54. Was the determination that certain standards do not apply to the audit documented in the working papers? [GAS, Ch. 3, p. 10]	---	---	---
55. Does the auditor's report disclose the status of known but uncorrected significant or material findings and recommendations from prior audits that affect the current audit objective? [GAS, Ch. 3, p. 16]	---	---	---
56. Does the auditor's report disclose audit scope impairments in the scope section of their report and the known effect it had on the results of the audit? [GAS, Ch. 3, p. 17]	---	---	---

**ILLUSTRATIVE COMBINED FINANCIAL STATEMENTS**  
**Illustrative Combined Balance Sheet—All Fund Types and Account Groups**  
**December 31, 19X2**

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type		Account Groups			Totals	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Debt	(Memorandum Only)		
										19X2	19X1	
<b>Assets</b>												
Cash	\$XX,XXX	\$XXX,XXX	\$XX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XX,XXX	\$ XXX,XXX	\$ —	\$ —	\$ X,XXX,XXX	\$ X,XXX,XXX	
Investments, at cost or amortized cost	XX,XXX	XX,XXX	—	—	—	—	X,XXX,XXX	—	—	X,XXX,XXX	X,XXX,XXX	
Receivables (net, where applicable, of allowances for uncollectibles):												
Taxes, including interest, penalties, and liens	XX,XXX	X,XXX	X,XXX	—	—	—	XXX,XXX	—	—	XXX,XXX	XXX,XXX	
Accounts	X,XXX	X,XXX	—	XXX	XX,XXX	—	—	—	—	XX,XXX	XX,XXX	
Notes	—	—	—	—	X,XXX	—	—	—	—	X,XXX	X,XXX	
Loans	—	—	—	—	—	XX,XXX	—	—	—	XX,XXX	XX,XXX	
Accrued interest	XX	XX	—	—	—	X,XXX	—	—	—	X,XXX	X,XXX	
Due from other funds	XX,XXX	—	—	—	X,XXX	XX,XXX	XX,XXX	—	—	XX,XXX	XX,XXX	
Due from other governments	XX,XXX	XX,XXX	—	XXX,XXX	—	—	—	—	—	XXX,XXX	XXX,XXX	
Advance to Internal Service Fund	XX,XXX	—	—	—	—	—	—	—	—	XX,XXX	XX,XXX	
Inventory, at cost	X,XXX	X,XXX	—	—	XX,XXX	XX,XXX	—	—	—	XX,XXX	XX,XXX	
Prepaid expenses	—	—	—	—	X,XXX	—	—	—	—	X,XXX	XXX	
Restricted assets:												
Cash and investments, at cost or amortized cost	—	—	—	—	XXX,XXX	—	—	—	—	XXX,XXX	XXX,XXX	
Fixed assets (net of accumulated depreciation)	—	—	—	—	X,XXX,XXX	XXX,XXX	—	—	—	XX,XXX,XXX	XX,XXX,XXX	
Amount available in Debt Service Funds	—	—	—	—	—	—	—	XX,XXX	—	XX,XXX	X,XXX	
Amount to be provided for retirement of general long-term debt	—	—	—	—	—	—	—	—	—	—	—	
Total assets	\$XXX,XXX	\$XXX,XXX	\$XX,XXX	\$X,XXX,XXX	\$X,XXX,XXX	\$XXX,XXX	\$X,XXX,XXX	\$X,XXX,XXX	\$X,XXX,XXX	\$X,XXX,XXX	\$X,XXX,XXX	\$XX,XXX,XXX



**NAME OF GOVERNMENT**  
**Illustrative Combined Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances—All Governmental Fund Types and Expendable Trust Funds**  
**Year Ended December 31, 19X2**

	Governmental Fund Types				Fiduciary Fund Type Expendable Trust	Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects		19X2	19X1
<b>Revenues:</b>							
Taxes and special assessments	\$ XXX,XXX	\$ XXX,XXX	\$XX,XXX	\$ —	\$ —	\$X,XXX,XXX	XX,XXX,XXX
Licenses and permits	XXX,XXX	—	—	—	—	XXX,XXX	XX,XXX,XXX
Intergovernmental	XXX,XXX	XX,XXX	XX,XXX	X,XXX,XXX	—	X,XXX,XXX	XX,XXX,XXX
Charges for services	XX,XXX	—	—	—	—	XX,XXX	XX,XXX,XXX
Fines and forfeits	XX,XXX	—	—	—	—	XX,XXX	XX,XXX,XXX
Miscellaneous	XX,XXX	XX,XXX	X,XXX	X,XXX	XXX	XX,XXX	XX,XXX,XXX
Total revenues	<u>X,XXX,XXX</u>	<u>X,XXX,XXX</u>	<u>XX,XXX</u>	<u>X,XXX,XXX</u>	<u>XXX</u>	<u>X,XXX,XXX</u>	<u>X,XXX,XXX</u>
<b>Expenditures:</b>							
General government	XXX,XXX	—	—	—	—	XXX,XXX	XXX,XXX
Public safety	XXX,XXX	XXX,XXX	—	—	—	XXX,XXX	XXX,XXX
Highways and streets	XX,XXX	XXX,XXX	—	—	—	XXX,XXX	XXX,XXX
Sanitation	XX,XXX	—	—	—	—	XX,XXX	XX,XXX
Health	XX,XXX	—	—	—	—	XX,XXX	XX,XXX
Welfare	XX,XXX	—	—	—	—	XX,XXX	XX,XXX
Culture and recreation	XX,XXX	—	—	—	—	XX,XXX	XX,XXX
Education	XX,XXX	XXX,XXX	—	—	X,XXX	XX,XXX	XX,XXX
Capital projects	XXX,XXX	—	—	—	—	X,XXX,XXX	X,XXX,XXX
Debt service:	—	—	—	X,XXX,XXX	—	—	—
Principal retirement interest and fiscal charges	—	—	XX,XXX	—	—	XX,XXX	XX,XXX
Total expenditures	<u>X,XXX,XXX</u>	<u>—</u>	<u>XX,XXX</u>	<u>—</u>	<u>—</u>	<u>XX,XXX</u>	<u>XX,XXX</u>
Excess (deficiency) revenues over expenditures	<u>XXX,XXX</u>	<u>XX,XXX</u>	<u>X,XXX</u>	<u>(XXX,XXX)</u>	<u>(X,XXX)</u>	<u>(XXX,XXX)</u>	<u>(XXX,XXX)</u>
<b>Other financing sources (uses):</b>							
Proceeds of general obligation bonds	—	—	—	XXX,XXX	—	XXX,XXX	XXX,XXX
Operating transfers in	—	—	—	XX,XXX	X,XXX	XX,XXX	XX,XXX
Operating transfers out	(XX,XXX)	—	—	—	—	(XX,XXX)	(XX,XXX)
Total other financing sources (uses)	<u>(XX,XXX)</u>	<u>—</u>	<u>—</u>	<u>XXX,XXX</u>	<u>X,XXX</u>	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>X,XXX</u>	<u>XXX,XXX</u>	<u>XXX</u>	<u>XXX,XXX</u>	<u>(XXX,XXX)</u>
Fund balance at beginning of year	XXX,XXX	XXX,XXX	X,XXX	XXX,XXX	XX,XXX	XXX,XXX	X,XXX,XXX
Increase in reserve for inventory	X,XXX	—	—	—	—	X,XXX	—
Fund balance at end of year	<u>\$ XXX,XXX</u>	<u>\$ XXX,XXX</u>	<u>\$XX,XXX</u>	<u>\$ XXX,XXX</u>	<u>\$ XX,XXX</u>	<u>\$X,XXX,XXX</u>	<u>\$ XXX,XXX</u>

See accompanying notes to financial statements.

**NAME OF GOVERNMENT**  
**Illustrative Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—**  
**Budget (GAAP Basis) and Actual—General, Special Revenue, and Capital Projects Fund Types**  
**Year Ended December 31, 19X2**

	General Fund			Special Revenue Fund Types			Capital Projects Fund Types		
	Budget	Actual	Variance— favorable (unfavorable)	Budget	Actual	Variance— favorable (unfavorable)	Budget	Actual	Variance— favorable (unfavorable)
<b>Revenues:</b>									
Taxes	\$ XXX,XXX	\$ XXX,XXX	\$ (X,XXX)	\$ XXX,XXX	\$ XXX,XXX	\$ (XXX)	\$ —	\$ —	\$ —
Licenses and permits	XXX,XXX	XXX,XXX	(XX,XXX)	—	—	—	—	—	—
Intergovernmental	XXX,XXX	XXX,XXX	(XX,XXX)	XXX,XXX	XXX,XXX	(X,XXX)	X,XXX,XXX	X,XXX,XXX	—
Charges for services	XX,XXX	XX,XXX	X,XXX	XX,XXX	XX,XXX	X,XXX	—	—	—
Fines and forfeits	XX,XXX	XX,XXX	XXX	—	—	—	—	—	—
Miscellaneous	XX,XXX	XX,XXX	(X,XXX)	XX,XXX	XX,XXX	(XX,XXX)	—	X,XXX	X,XXX
Total revenues	<u>X,XXX,XXX</u>	<u>X,XXX,XXX</u>	<u>(XX,XXX)</u>	<u>X,XXX,XXX</u>	<u>X,XXX,XXX</u>	<u>(XX,XXX)</u>	<u>X,XXX,XXX</u>	<u>X,XXX,XXX</u>	<u>X,XXX</u>
<b>Expenditures:</b>									
General government	XXX,XXX	XXX,XXX	X,XXX	—	—	—	—	—	—
Public safety	XXX,XXX	XXX,XXX	XX,XXX	XXX,XXX	XXX,XXX	XX,XXX	—	—	—
Highways and streets	XX,XXX	XX,XXX	(XXX)	XXX,XXX	XXX,XXX	XX,XXX	—	—	—
Sanitation	XX,XXX	XX,XXX	(X,XXX)	—	—	—	—	—	—
Health	XX,XXX	XX,XXX	X,XXX	—	—	—	—	—	—
Welfare	XX,XXX	XX,XXX	X,XXX	—	—	—	—	—	—
Culture and recreation	XX,XXX	XX,XXX	X,XXX	XXX,XXX	XXX,XXX	XX,XXX	—	—	—
Education	XXX,XXX	XXX,XXX	XX,XXX	—	—	—	—	—	—
Capital projects	—	—	—	—	—	—	X,XXX,XXX	X,XXX,XXX	(XX,XXX)
Total expenditures	<u>X,XXX,XXX</u>	<u>X,XXX,XXX</u>	<u>XX,XXX</u>	<u>X,XXX,XXX</u>	<u>X,XXX,XXX</u>	<u>XX,XXX</u>	<u>X,XXX,XXX</u>	<u>X,XXX,XXX</u>	<u>(XX,XXX)</u>
Excess (deficiency) of revenues over expenditures	XXX,XXX	XXX,XXX	(X,XXX)	(XX,XXX)	XX,XXX	XX,XXX	(XXX,XXX)	(XXX,XXX)	(XX,XXX)
<b>Other financing sources (uses):</b>									
Proceeds of general obligation bond issues	—	—	—	—	—	—	XXX,XXX	XXX,XXX	—
Operating transfers in	—	—	—	—	—	—	XX,XXX	XX,XXX	(XXX)
Operating transfers out	(XX,XXX)	(XX,XXX)	—	—	—	—	—	—	—
Total other financing sources (uses)	<u>(XX,XXX)</u>	<u>(XX,XXX)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>XXX,XXX</u>	<u>XXX,XXX</u>	<u>(XXX)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	XX,XXX	XX,XXX	(X,XXX)	(XX,XXX)	XX,XXX	XX,XXX	XXX,XXX	XXX,XXX	(XX,XXX)
Fund balance at beginning of year	XXX,XXX	XXX,XXX	—	XXX,XXX	XXX,XXX	—	XXX,XXX	XXX,XXX	—
Increase in reserve for inventory	—	X,XXX	X,XXX	—	—	—	—	—	—
Fund balance at end of year	<u>\$ XXX,XXX</u>	<u>\$ XXX,XXX</u>	<u>\$ (X,XXX)</u>	<u>\$ XXX,XXX</u>	<u>\$ XXX,XXX</u>	<u>\$ XX,XXX</u>	<u>\$ XXX,XXX</u>	<u>\$ XXX,XXX</u>	<u>\$ (XX,XXX)</u>

See accompanying notes to financial statements.



**LOCAL GOVERNMENTS**

**NAME OF GOVERNMENT**

**Illustrative Combined Statement of Revenues, Expenses and Changes in  
Retained Earnings/Fund Balances—All Proprietary Fund Types  
and Similar Trust Funds  
Year Ended December 31, 19X2**

	Proprietary Fund Types		Fiduciary Fund Types		Total (Memorandum Only)	
	Enterprise	Internal Service	Pension Trust	Nonexpendable Trust	19X2	19X1
<b>Operating revenues:</b>						
Charge for services	\$ XXX,XXX	\$XX,XXX	\$ —	\$ —	\$ XXX,XXX	\$ XXX,XXX
Interest	—	—	XX,XXX	X,XXX	XX,XXX	XX,XXX
Contributions	—	—	XXX,XXX	—	XXX,XXX	XXX,XXX
Gifts	—	—	—	XX,XXX	XX,XXX	—
Total operating revenues	<u>XXX,XXX</u>	<u>XX,XXX</u>	<u>XXX,XXX</u>	<u>XX,XXX</u>	<u>XXX,XXX</u>	<u>XXX,XXX</u>
<b>Operating expenses:</b>						
Personal services	XXX,XXX	XX,XXX	—	—	XXX,XXX	XXX,XXX
Contractual services	XX,XXX	XXX	—	—	XX,XXX	XX,XXX
Supplies	XX,XXX	X,XXX	—	—	XX,XXX	XX,XXX
Materials	XX,XXX	XX,XXX	—	—	XX,XXX	XX,XXX
Heat, light, and power	XX,XXX	X,XXX	—	—	XX,XXX	XX,XXX
Depreciation	XXX,XXX	X,XXX	—	—	XXX,XXX	XXX,XXX
Benefit payments	—	—	XX,XXX	—	XX,XXX	XX,XXX
Refunds	—	—	XX,XXX	—	XX,XXX	XX,XXX
Total operating expenses	<u>XXX,XXX</u>	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>—</u>	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Operating income	<u>XXX,XXX</u>	<u>X,XXX</u>	<u>XXX,XXX</u>	<u>XX,XXX</u>	<u>XXX,XXX</u>	<u>XXX,XXX</u>
<b>Nonoperating revenues (expenses):</b>						
Operating grants	XX,XXX	—	—	—	XX,XXX	XX,XXX
Tap fees	XX,XXX	—	—	—	XX,XXX	XX,XXX
Interest	X,XXX	—	—	—	X,XXX	X,XXX
Rent	X,XXX	—	—	—	X,XXX	X,XXX
Interest and fiscal charges	(XX,XXX)	—	—	—	(XX,XXX)	(XXX,XXX)
Total nonoperating revenues (expenses)	<u>X,XXX</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>X,XXX</u>	<u>(XX,XXX)</u>
Income before operating transfers	<u>XXX,XXX</u>	<u>X,XXX</u>	<u>XXX,XXX</u>	<u>XX,XXX</u>	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Operating transfers in (out)	<u>—</u>	<u>—</u>	<u>—</u>	<u>(X,XXX)</u>	<u>(X,XXX)</u>	<u>(X,XXX)</u>
Net income	<u>XXX,XXX</u>	<u>X,XXX</u>	<u>XXX,XXX</u>	<u>XX,XXX</u>	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Retained earnings/fund balances at beginning of year	<u>X,XXX,XXX</u>	<u>X,XXX</u>	<u>X,XXX,XXX</u>	<u>XXX,XXX</u>	<u>X,XXX,XXX</u>	<u>X,XXX,XXX</u>
Retained earnings/fund balances at end of year	<u>\$X,XXX,XXX</u>	<u>\$ X,XXX</u>	<u>\$X,XXX,XXX</u>	<u>\$ XXX,XXX</u>	<u>\$ X,XXX,XXX</u>	<u>\$ X,XXX,XXX</u>

See accompanying notes to financial statements.

**NAME OF GOVERNMENT**  
**Illustrative Combined Statement of Cash Flows—All Proprietary Fund Types (and Similar Trust Funds)**  
**Year Ended December 31, 19X2**

	Proprietary Fund Types		Fiduciary Fund Types		Total (Memorandum Only) 19X2
	Enterprise	Internal Service	Pension Trust *	Nonexpendable Trust	
<b>Cash flows from operating activities:</b>					
Cash received from customers	\$ XXX,XXX	\$ XX,XXX	\$ —	\$ —	\$ XXX,XXX
Cash payments to suppliers for goods and services	(XXX,XXX)	(XX,XXX)	—	—	(XXX,XXX)
Cash payments to employees for services	(XXX,XXX)	(XX,XXX)	—	—	(XXX,XXX)
Payments in lieu of taxes	(XX,XXX)	—	—	(XX,XXX)	(XX,XXX)
Other operating revenues	XX,XXX	—	XXX,XXX	XX,XXX	XXX,XXX
Net cash provided by operating activities	XXX,XXX	XX,XXX	XXX,XXX	(XX,XXX)	\$ XXX,XXX
<b>Cash flows from noncapital financing activities:</b>					
Net borrowings (repayments) under revolving loan agreement	(XX,XXX)	—	—	—	(XX,XXX)
Interest paid on revolving loan	(X,XXX)	—	—	—	(X,XXX)
Operating grants received	XXX,XXX	—	—	—	XXX,XXX
Operating transfers-out to other funds	(XX,XXX)	—	—	(X,XXX)	(XX,XXX)
Net cash provided by noncapital financing activities	X,XXX	—	—	(X,XXX)	X,XXX
<b>Cash flows from capital and related financing activities:</b>					
Proceeds from sale of revenue bonds	\$ XXX,XXX	—	—	—	XXX,XXX
Acquisition and construction of capital assets	(XXX,XXX)	(XX,XXX)	—	—	(XXX,XXX)
Principal paid on revenue bond maturities and equipment contracts	(XX,XXX)	—	—	—	(XX,XXX)
Interest paid on revenue bonds and equipment contracts	(XX,XXX)	—	—	—	(XX,XXX)
Proceeds from sale of equipment	XX,XXX	—	—	—	XX,XXX
Capital contributed by subviders	XX,XXX	—	—	—	XX,XXX
Net cash used for capital and related financing activities	(XXX,XXX)	(XX,XXX)	—	—	(XXX,XXX)
<b>Cash flows from investing activities:</b>					
Purchase of investment securities	(XXX,XXX)	—	(XX,XXX)	(XX,XXX)	(XXX,XXX)
Proceeds from sale and maturities of investment securities	XX,XXX	—	XX,XXX	—	XX,XXX
Interest and dividends on investments	X,XXX	—	X,XXX	X,XXX	X,XXX
Net cash used in investing activities	(XX,XXX)	—	(X,XXX)	(XX,XXX)	(XX,XXX)
<b>Net increase (decrease) in cash and cash equivalents</b>	(XX,XXX)	(XX,XXX)	XXX,XXX	(XX,XXX)	(XX,XXX)
<b>Cash and cash equivalents at beginning of year</b>	XXX,XXX	XX,XXX	XX,XXX	(XX,XXX)	(XXX,XXX)
<b>Cash and cash equivalents at end of year</b>	<u>\$ XXX,XXX</u>	<u>\$ XX,XXX</u>	<u>\$ XXX,XXX</u>	<u>\$ (XX,XXX)</u>	<u>\$ XXX,XXX</u>

See accompanying notes to financial statements.

**Reconciliation of operating income to net cash provided by operating activities:**

	Proprietary Fund Types		Fiduciary Fund Types		Total (Memorandum Only) 19X2
	Enterprise	Internal Service	Pension Trust*	Nonexpendable Trust	
Operating income	\$ XXX,XXX	\$ X,XXX	\$ XXX,XXX	\$XX,XXX	\$ XXX,XXX
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	XXX,XXX	X,XXX			XXX,XXX
Change in assets and liabilities:					
Investments	—	—	(X,XXX)	XX,XXX	(XX,XXX)
Receivables	(XX,XXX)			XXX	(XX,XXX)
Due from other funds	(X,XXX)	(X,XXX)	X,XXX		XX,XXX
Inventory	XX,XXX	XX,XXX			XX,XXX
Prepaid expenses	XXX				XXX
Vouchers payable	(XX,XXX)	X,XXX	X,XXX		(XX,XXX)
Contracts payable	XXX,XXX				XXX,XXX
Accrued general obligation bond interest	XXX				XXX
Other accrued expenses	X,XXX			(XXX)	X,XXX
Total adjustments	XXX,XXX	X,XXX	XXX,XXX	XX,XXX	XXX,XXX
Net cash provided by operating activities:	\$ XXX,XXX	\$ X,XXX	\$ XXX,XXX	\$XX,XXX	\$ XXX,XXX

\* [Editor's Note: Not required by GASB No. 9.]

NAME OF GOVERNMENT

Illustrative Notes to Financial Statements

December 31, 19X2

I. Summary of Significant Accounting Policies

The Name of Government accounts for its financial position and results of operations in accordance with generally accepted accounting principles applicable to governmental units. Accordingly, the city uses several funds and account groups which are described below.

A. Fund Types and Account Groups

A fund or account group is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The City maintains the following fund types and account groups:

**Governmental fund types**, that include the General Fund, special revenue funds and the Capital Projects Fund, are used to record the general operations of the City;

**Proprietary fund types**, that are used to account for activities conducted on a fee for service basis in a manner similar to commercial enterprises, provide services to the City (internal service funds) and the public (enterprise funds);

**Fiduciary fund types** (trust and agency funds), that are used to account for assets held by the City as an agent for private individuals or organizations or in trust;

**General fixed assets and general long-term obligation account groups**, that are used to account for property and equipment and long-term obligations of governmental funds. General long-term bonded debt was repaid through the General Fund, because it was the City's policy to allocate property tax collections first to debt service requirements, then to other purposes.

The combined financial statements include total columns that aggregate the financial statements of the various fund types and account groups. The columns are designated "memorandum only" because the totals are not comparable to a consolidation in that interfund transactions are not eliminated. Comparative information presented for 19X1 contains certain reclassifications to conform to the 19X2 presentation.

B. Reporting Entity

All significant activities and organizations on which the City exercises oversight responsibility have been included in the City's general purpose financial statements, for the year ended December 31, 19X2. The following criteria regarding manifestation of oversight were considered by the City in its evaluation of City organizations and activities:

**Financial interdependency**—The City is responsible for its debts and is entitled to surpluses. No separate agency receives a financial benefit nor imposes a financial burden on the City.

**Election of the government authority**—The locally elected City Council is exclusively responsible for all public decisions and accountable for the decisions it makes.

**Designation of management**—The City Council appoints the City Manager and the Water Commissioner. The City Manager hires other members of City management and the Water Commissioner appoints a Water Commission manager who hires other members of the Water Commission management. The activities under the purview of management are within the scope of the reporting entity and management is accountable to the City Council for the activities being managed.

**Ability to significantly influence operations**—The City Council has the statutory authority under the provisions of the Revised Statutes to significantly influence operations. This authority includes, but is not limited to, adoption of the budget, control over all assets, including facilities and properties, short-term borrowing, signing contracts, and developing the programs to be provided.

**Accountability of fiscal matters**—The responsibility and accountability over all funds is vested in the City management.

### C. Basis of Accounting

Governmental fund types, agency funds and the expendable trust fund use a modified accrual basis of accounting. Revenues are recognized when available and measurable. Revenues that are accrued include federal and state grants and subventions, property taxes, transient occupancy taxes, sales taxes collected by the State on behalf of the City prior to year-end, interest, and certain charges for current services. Revenues that are not considered susceptible to accrual include certain licenses, permits, fines, forfeitures, penalties and other taxes. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred.

Proprietary fund types and the nonexpendable trust fund are accounted for on the accrual basis. The Water and Wastewater Enterprise Funds bill for services on a staggered, bimonthly basis. This billing method does not capture all amounts receivable by the City at the end of each fiscal year. The unbilled amounts and the variance between such amounts at December 31, 19X2 and 19X1 are not material and have not been recorded.

### D. Fixed Assets and Long-Term Liabilities

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds and Expendable Trust Funds are accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of “available spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. Public domain (“infrastructure”) general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, *are* capitalized along with other general fixed assets. No depreciation has been provided on general fixed assets.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

The two account groups are not “funds.” They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

Noncurrent portions of long-term receivables due to governmental funds *are* reported on their balance sheets, in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered “available spendable resources,” because they do not represent net current assets. Recognition of governmental fund type revenues represented by noncurrent receivables is deferred until they become current receivables. Noncurrent portions of long-term loans receivable are offset by fund balance reserve accounts.

Special reporting treatments also are applied to governmental fund inventories to indicate that they do not represent "available spendable resources," even though they are a component of net current assets. Such amounts generally are offset by fund balance reserve accounts.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Because they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They instead are reported as liabilities in the General Long-Term Debt Account Group.

All proprietary funds and Nonexpendable Trust and Pension Trust Funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings	25-50 years
Improvements	10-20 years
Equipment	3-10 years

#### **E. Budgets and Budgetary Accounting**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at locations throughout the City to obtain taxpayer comments.
3. Prior to November 1, the budget is legally enacted through passage of an ordinance.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and Capital Projects Funds. Formal budgetary integration is not employed for Debt Service Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
6. Budgets for the General, Special Revenue, and Capital Projects Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Budgeted amounts are as originally adopted, or as amended by the City Council on June 27, 19X2. Individual amendments were not material in relation to the original appropriations which were amended.

#### **F. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund, Special Revenue Funds, and Capital Projects Funds. Encumbrances outstanding at year end are reported as reservations of fund balances because they do not constitute expenditures or liabilities.

**G. Investments**

Investments are stated at cost or amortized cost, which approximates market.

**H. Inventory**

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the General and Special Revenue Funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

**I. Advance to Other Funds**

Noncurrent portions of long-term interfund loans receivable (reported in "Advance to" asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute "available spendable resources" because they are not a component of net current assets. Current portions of long-term interfund loans receivable (reported in "Due from" asset accounts) are considered "available spendable resources."

**J. Accumulated Unpaid Vacation, Sick Pay, and Other Employee Benefit Amounts**

Accumulated unpaid vacation, sick pay, and other employee benefit amounts are accrued when incurred in proprietary funds (using the accrual basis of accounting). Such amounts are *not* accrued in governmental funds (using the modified accrual basis of accounting). At December 31, 19X2, unrecorded General and Special Revenue Fund liabilities included approximately \$32,000 vacation pay, \$17,000 sick pay, and \$19,000 employee health benefits. These amounts do *not* exceed normal year's accumulations.

**K. Comparative Data**

Comparative total data for the prior year have been presented in the accompanying financial statements to provide an understanding of changes in the City's financial position and operations. However, comparative (i.e., presentation of prior year totals by fund type) data have not been presented in each of the statements because their inclusion would make the statements unduly complex and difficult to read.

**L. Statement of Cash Flows**

In 19X2 the City adopted GASB Statement 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". For purposes of reporting cash flows all highly liquid investments (including restricted assets) with a maturity of three months or less are considered to be cash equivalents.

**II. Cash and Investments**

Cash and investments stated at cost consisted of the following:

Cash	\$ (XXX,XXX)
Certificates of deposit	XX,XXX,XXX
Pooled investments	XX,XXX,XXX
Cash and investments in deferred compensation plan	X,XXX,XXX

The City maintains a cash and investment pool for all funds except those of the Civic Center Lease Trust Fund and certain restricted assets of the Parking Authority Enterprise Fund, that are held separately at the Bank of America as trustee for the City, and the Deferred Compensation Fund that are held by ICMA Retirement Corporation (ICMA). Investment income generally is allocated to the various funds based upon the funds' average cash and investment balances.

All cash and time deposits are entirely insured or collateralized. The name of state Government Code requires name of state banks and savings and loan associations to secure a City's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of a City's deposits. Name of state law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of a City's total deposits.

The City may waive collateral requirements for deposits that are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC) or Savings Association Insurance Fund (SAIF).

The surplus funds of the City may be invested in any of the following list of eligible securities. This list is drawn from the approved investments contained in the [name of state] Government Code Sections 53600 et seq., limited further by the investment policy adopted by City Council.

<u>Type</u>	<u>Dollar limits</u>	<u>Maximum term</u>	<u>Liquid</u>
General instruments			
Local Agency Investment Fund (LAIF)	\$10 million	Available on demand	Yes
U.S. Treasury Bonds, Notes and Bills	None	5 years	Yes
U.S. Government Agencies	None	5 years	Yes
Collateralized investments			
Reverse Repurchase Agreements	\$15 million	6 months	By agreement
Time Deposits—Banks and Savings Associations	\$15 million	1 year	No
Financial options	\$15 million	60 days	Yes
Uncollateralized instruments			
Negotiable Certificates of Deposit	30% of total portfolio	5 years	Yes
Certain Corporate Medium Term Notes	15% of total portfolio	5 years	Yes
Commercial Paper	30% of total portfolio	90 days	Yes
Bankers Acceptances	30% of total portfolio	180 days	Yes

At year end, the carrying amount of the City's investments was \$XXX,XXX,XXX with a market value of \$XXX,XXX,XXX.

The City's investments are shown by type, carrying amount, market value and level of risk assumed in the holding of the various securities.

The levels of risk assumed in the various investments are categorized as follows:

- Category 1:** includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name.
- Category 2:** includes uninsured and unregistered investments for which the securities are held by the bank's or dealer's trust department or agent in the City's name.
- Category 3:** includes uninsured and unregistered investments for which the securities are held by the bank or dealer, or by its trust department or agent but not in the City's name.

	<u>Category</u>			<u>Total cost</u>	<u>Total market</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
U.S. Government Securities	\$ —	\$ XX,XXX,XXX	\$X,XXX,XXX	\$ XX,XXX,XXX	\$ XX,XXX,XXX
Bankers' Acceptances	—	X,XXX,XXX	—	X,XXX,XXX	X,XXX,XXX
Certificates of Deposit	X,XXX,XXX	XX,XXX,XXX	X,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Corporate Term Medium Notes	—	X,XXX,XXX	—	X,XXX,XXX	X,XXX,XXX
Commercial Paper	—	XX,XXX,XXX	—	XX,XXX,XXX	XX,XXX,XXX
	\$X,XXX,XXX	\$XXX,XXX,XXX	\$X,XXX,XXX	\$XXX,XXX,XXX	\$XXX,XXX,XXX
Investment in State Treasurer's investment pool	X,XXX,XXX	X,XXX,XXX			
				\$XXX,XXX,XXX	\$XXX,XXX,XXX

**Reverse Repurchase Agreement**

On December 1, 19X2 the City entered into a reverse repurchase agreement with First Interstate Bank. In this agreement the City put up a \$X,XXX,XXX U.S. Treasury note with a coupon rate of interest of 6.375% as collateral for a loan of \$X,XXX,XXX at 6.5% for thirty days. The loan proceeds were used to purchase a \$X,XXX,XXX Imperial Savings Certificate with an interest rate of 7.1% which matures on January 1, 19X3.



### III. Property Tax

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on March 1 and payable in two installments on June 1 and September 1. The City bills and collects its own property taxes and also taxes for the County School District. Collections of the county taxes and remittance of them to the District are accounted for in the School District Tax Agency Fund. City property tax revenues are recognized when levied to the extent that they result in current receivables.

The City is permitted by the Municipal Finance Law of the state to levy taxes up to \$5.00 per \$100 of assessed valuation for general governmental services other than the payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on long-term debt. The combined tax rate to finance general governmental services other than the payment of principal and interest on long-term debt for the year ended December 31, 19X2, was \$3.74 per \$100, which means that the City has a tax margin of \$1.26 per \$100 and could raise up to \$XXX,XXX additional a year from the present assessed valuation of \$XX,XXX,XXX before the limit is reached.

### IV. Due From Other Governments

Amounts due from other governments include \$XXX,XXX due from the County in connection with the construction of the Civic Center, which is expected to cost \$X,XXX,XXX, with \$X,XXX,XXX to be financed through a grant from the County (\$XXX,XXX of this amount was paid during 19X8). The \$XXX,XXX still due from the County is expected to be received when the project is 50 percent complete. Construction is expected to be 50 percent complete by April 1, 19X3, and fully complete by November 1, 19X3.

### V. Changes in General Fixed Assets

A summary of changes in general fixed assets follows:

	Balance Jan. 1, 19X2	Additions	Deletions	Balance Dec. 31, 19X2
Land	\$X,XXX,XXX	\$ XX,XXX	\$ —	\$X,XXX,XXX
Buildings	X,XXX,XXX	XXX,XXX	XXX,XXX	X,XXX,XXX
Improvements other than buildings	XXX,XXX	XXX,XXX	XX,XXX	X,XXX,XXX
Equipment	XXX,XXX	XX,XXX	XX,XXX	XXX,XXX
Construction in progress	XXX,XXX	X,XXX,XXX	XXX,XXX	X,XXX,XXX
Total	<u>\$X,XXX,XXX</u>	<u>\$X,XXX,XXX</u>	<u>\$X,XXX,XXX</u>	<u>\$X,XXX,XXX</u>

Construction in progress is composed of the following:

	Project authorization	Expended to Dec. 31, 19X2	Committed	Required future financing
Civic Center	\$X,XXX,XXX	\$X,XXX,XXX	\$ XXX,XXX	None
Mill Street Bridge	XXX,XXX	XXX,XXX	XX,XXX	None
Improvement District No. 80	XXX,XXX	XXX,XXX	XX,XXX	None
Total	<u>\$X,XXX,XXX</u>	<u>\$X,XXX,XXX</u>	<u>\$X,XXX,XXX</u>	

A summary of proprietary fund type property, plant, and equipment at December 31, 19X2 follows:

	<u>Enterprise</u>	<u>Internal Service</u>
Land	\$ XXX,XXX	\$ XX,XXX
Buildings	XXX,XXX	XX,XXX
Improvements other than buildings	X,XXX,XX1	XX,XXX
Equipment	X,XXX,XXX	XX,XXX
Construction in progress	<u>XX,XXX</u>	<u>—</u>
Total	X,XXX,XXX	XXX,XXX
Less accumulated depreciation	<u>(XXX,XXX)</u>	<u>(XX,XXX)</u>
Net	<u>\$X,XXX,XXX</u>	<u>\$XXX,XXX</u>

## VI. Changes in Long-Term Debt

The following is a summary of bond transactions of the City for the year ended December 31, 19X2 (in thousands of dollars):

	<u>General obligation</u>	<u>Revenue</u>	<u>Total</u>
Bonds payable at January 1, 19X2	\$X,XXX	\$X,XXX	\$X,XXX
New bonds issued:			
19X2 Civic Center	XXX	—	XXX
19X2 Richard Craddock Memorial Recreation Center	XXX	—	XXX
Bonds retired	<u>(XXX)</u>	<u>(XX)</u>	<u>(XXX)</u>
Bonds payable at December 31, 19X2	<u>\$X,XXX</u>	<u>\$X,XXX</u>	<u>\$X,XXX</u>

Bonds payable at December 31, 19X2 are comprised of the following individual issues (in thousands of dollars):

### General obligation bonds:

\$X,XXX,XXX 19W2 Waterworks serial bonds due in annual installments of \$XX,XXX through January 1, 19Y6; interest at 4 percent (this issue is being serviced—principal and interest—by the Water and Sewer Enterprise Fund)	\$ XXX
\$X,XXX,XXX 19W2 Street, Bridge, and Drainage Improvements serial bonds due in annual installments of \$XX,XXX to \$XX,XXX through December 1, 19Y2; interest at 3 percent	XXX
\$XXX,XXX 19X2 Civic Center serial bonds due in annual installments of \$XX,XXX through December 1, 19Z2; interest at 4 percent	XXX
\$XXX,XXX 19X2 Richard Craddock Memorial Recreation Center serial bonds due in annual installments of \$XX,XXX through December 1, 19Z2; interest at 5 percent	<u>XXX</u>
	<u>\$X,XXX</u>

### Revenue bonds:

\$X,XXX,XXX Water and Sewer serial bonds due in annual installments of \$XX,XXX to \$XX,XXX through January 1, 19Z2; interest at 3½ percent	\$X,XXX
\$XXX,XXX 19W8 Water and Sewer serial bonds due in annual installments of \$XX,XXX to \$XX,XXX through January 1, 19Z2; interest at 3½ percent	<u>XXX</u>
	<u>\$X,XXX</u>

The annual requirements to amortize all debt outstanding as of December 31, 19X2, including interest payments of \$X,XXX,XXX, are as follows:

**Annual Requirements to Amortize Long-Term Debt**  
**December 31, 19X2**  
(in thousands of dollars)

Year ending December 31	General obligation	Revenue	Total
19X3	\$ XXX	\$ XXX	\$ XXX
19X4	XXX	XXX	XXX
19X5	XXX	XXX	XXX
19X6	XXX	XXX	XXX
19X7	XXX	XXX	XXX
19X8-Y2	X,XXX	XXX	X,XXX
19Y3-Y7	XXX	XXX	X,XXX
19Y8-Z2	XXX	XXX	XXX
	<u>\$X,XXX</u>	<u>\$X,XXX</u>	<u>\$X,XXX</u>

\$12,572 is available in the Debt Service Funds to serve the general obligation bonds.

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

**VII. Other Required Individual Fund Disclosures**

Generally accepted accounting principles require disclosure, as part of the Combined Statements—Overview, of certain information concerning individual funds including:

- A. Segment information for certain individual Enterprise Funds. This requirement is effectively met in this report by The Combined Balance Sheet—All Fund Types and Account Groups, The Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances—All Proprietary Fund Types and Similar Trust Funds and the Combined Statement of Changes in Financial Position—All Proprietary Fund Types and Similar Trust Funds because the City maintains only one Enterprise Fund.
- B. Summary disclosures of debt service requirements to maturity for all types of outstanding debt. This requirement is met by Note 6.
- C. Summary disclosures of changes in general fixed assets by major asset class. This requirement is met by Note 5.
- D. Summary disclosures of changes in general long-term debt. This requirement is met by Note 6.
- E. Excess of expenditures over appropriations in individual funds. Civic Center Capital Projects Fund expenditures of \$X,XXX,XXX exceeded appropriations of \$X,XXX,XXX. Mill Street Bridge Capital Projects Fund expenditures of \$XX,XXX exceeded appropriations of \$XX,XXX.
- F. Individual fund interfund receivable and payable balances. Such balances at December 31, 19X2 were:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$XX,XXX	\$XX,XXX
Special Revenue Fund: Parks Fund		X,XXX
Capital Projects Fund: Mill Street Bridge Fund		X,XXX
Enterprise Fund: Water and Sewer Fund	X,XXX	
Internal Service Fund: Central Garage Fund	XX,XXX	XX,XXX
Pension Trust Fund: Employees' Retirement System	XX,XXX	
Expendable Trust Fund: Endowment Revenues Fund	X,XXX	
	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>

## VIII. Pension Plans

The City has historically presented the financial statements of its pension plan in accordance with the official pronouncements of the National Council on Governmental Accounting (NCGA) and the Financial Accounting Standards Board (FASB).

In preparing the financial statements of the Municipal Pension Fund for Fiscal 19X2, the City has considered the Governmental Accounting Standards Board (GASB) Statements 1 and 4. These statements list several pronouncements that provide alternate methods of acceptable accounting and reporting principles for public employee retirement systems and state and local government employers. Where practicable, the City has adopted the disclosure requirements of GASB Statement 5.

### A. Municipal Pension Plan

1. PLAN DESCRIPTION—The City is required by the Home Rule Charter to maintain an actuarially sound pension and retirement system (PERS), as a single employer plan, covering all officers and employees of the City, and the officers and employees of certain other governmental and quasi-governmental organizations. Court decisions have interpreted this requirement to mean that the City must make contributions to the Municipal Pension Fund sufficient to fund:
  - a. Accrued normal costs, which are actuarially computed amounts necessary to be contributed to the pension fund to provide, in the future, the pension and survivor benefits earned by the work force during the year.
  - b. Amortization in level installments (which include interest) over periods of 20 and 40 years, of certain unfunded prior service costs as ordered by the Court of Common Pleas of the County in two class action suits brought by pension fund beneficiaries.
  - c. Interest on the remaining unfunded accrued liability of the pension plans.

In Fiscal 19X2 the city contributed the amounts prescribed in (a) and (b) above plus a scheduled amount sufficient to amortize (inclusive of interest) the remaining unfunded accrued liability over a 36-year period.

The schedule has been determined on the basis of a formula which produces amounts expected to be a level percentage of each year's aggregate payroll. The level percentage of payroll funding method is deemed actuarially sound and is in common use by public jurisdictions in the United States. Under this method, the unfunded accrued liability of \$X.X billion at December 31, 19X1 will increase to \$X.X billion by the year 2005 as unpaid interest on that liability compounds. Scheduled payments through the year 2019 will reduce the liability to zero. At January 1, 19X1 City Pension Plan membership consisted of:

(1) Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	24,758
(2) Current employees	31,970
(3) Total Membership	56,728

The Pension Plan provides retirement benefits as well as death and disability benefits. Retirement benefits vest after 10 years of credited service. Employees who retire are entitled to an annual retirement benefit, payable monthly for life.

- a. Uniformed Personnel (Police and Fire) who retire at or after age 45 are eligible to receive a service pension equal to 2½% of the employee's average final compensation multiplied by his years of credited service, subject to a maximum of 100% of average final compensation.

- b. Municipal employees who retire at or after age 55 are eligible to receive a service pension equal to the sum of: 2½% of the employee's average final compensation multiplied by his years of credited service to a maximum of 20 years; plus 2% of the employee's average final compensation multiplied by his years of credited service in excess of 20; limited to 80% of the employee's average final compensation.

Average final compensation is defined as follows:

- (1) Uniformed Personnel—the highest of the total compensation received during the 12-month period that produces the highest figure; or the annual base rate of pay, excluding longevity payments, calculated from the final pay period; or the arithmetic average of the total compensation received during the five calendar years of employment that produces the highest average.
- (2) Municipal Employees represented by the American Federation of State, County and Municipal Employee Union (AFSCME) and certain court employees—the arithmetic average of the total compensation received during the three calendar or anniversary years that produces the highest average.
- (3) Elected and appointed officials and other positions not represented by a union—the arithmetic average of the total compensation received during the three calendar or anniversary years that produces the highest average.

Covered employees who participate in the Social Security System, contribute 3¾% of his or her total compensation up to the taxable wage base and 6% of total compensation above the taxable wage base to the Retirement System. Each employee who does not participate in the Social Security System contributes 6% of his or her total compensation to the Retirement System.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

- a. Basis of Accounting—Pension Plan financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed.
- b. Method Used to Value Investments—Pension Plan securities are reported at cost; investment income is recognized as earned. Gains and losses on sales and exchanges of fixed-income securities are recognized on the transaction date. The market value of Pension Fund investments held at December 31, 19X2 totalled \$X,XXX.X million.

## 3. FUNDING STATUS AND PROGRESS

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Pension Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS and is independent of the actuarial funding method used to determine contributions to the PERS.

The pension benefit obligation was determined as part of an actuarial valuation at January 1, 19X1. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 9% per year compounded annually; (b) projected salary increases of 6% per year compounded annually, and (c) age 65 assumed retirement age.

At January 1, 19X1, the unfunded pension benefit obligation was \$X,XXX.X million, as follows:

	<u>(Amounts in Thousands)</u>
Pension Benefit Obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$X,XXX,XXX
Current employees—	
Accumulated employee contributions including allocated investment income	XXX,XXX
Employer-financed vested	XXX,XXX
Employer-financed nonvested	XXX,XXX
Total pension benefit obligation	X,XXX,XXX
Net assets available for benefits, at cost value	X,XXX,XXX
Unfunded pension benefit obligation	\$X,XXX,XXX

#### 4. CONTRIBUTION REQUIRED AND CONTRIBUTIONS MADE

The Pension Plan funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates are based on the unfunded accrued pension liability as determined by using the Entry Age actuarial cost method. This method differs from the Projected Unit Credit method that was used to determine the unfunded liability at December 31, 19X1. The effect of this change is to increase the unfunded accrued liability and Fiscal 1987 contributions by \$XXX.X million and \$X.X million, respectively.

Contributions totalling \$XXX.X million were made in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at January 1, 19X1. These contributions consisted of (a) \$XX.X million normal cost and (b) \$XX.X million amortization of the unfunded actuarial accrued liability less \$X.X million credit for advance payments.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation in (3) above.

#### 5. TEN-YEAR HISTORICAL TREND INFORMATION

Ten-year historical trend information designed to provide information about the Pension Plan's progress made in accumulating sufficient assets to pay benefits when due is presented following the notes to the financial statements.

### B. School District Pension Plan

School districts in the Commonwealth participate in a State administered pension program established under legislative authority, which is a cost-sharing multiple-employer PERS. Under this program, contributions are made by each of three parties—The District, the Commonwealth and the employee. All the District's full-time employees, part-time employees salaried over eighty days and hourly employees working more than five hundred hours per year participate in the program. Currently, each party to the program contributes a fixed percentage of employees' gross earnings.

The pension program is wholly administered by the statewide, autonomous Public School Employees Retirement Systems (PSERS). The School District has no responsibility or authority for the operation and administration of the pension program nor has it any related liability except for the current contribution requirements.

There are approximately 200,000 contributing participants in the pension program and approximately 90,400 members including beneficiaries receiving benefits.

A brief statement of the terms of the pension plan follows:

1. PENSION BENEFITS—A participant may retire with a normal retirement allowance at the age of sixty-two with one full year of service, age sixty with thirty or more years of service or with thirty-five years of service regardless of age. The normal retirement allowance paid monthly for life and then to beneficiaries if certain options are exercised, equals 2% of the average of the highest three earning years multiplied by the number of years of credited service.  
 Early retirement is permitted at age fifty-five or older with twenty-five years or more of credited service with a reduction of 3% per year of normal retirement benefits.
2. DEFERRED ALLOWANCE—A participant leaving employment before attaining retirement age but completing ten years of service may elect to vest his accumulated contributions and defer receipt of a retirement annuity until a later date.
3. DEATH BENEFITS—When a participant dies in active service after attaining normal retirement age and service, the beneficiary is entitled to a death benefit of the present value of the normal retirement allowance computed in (1) above. If a participant dies before attaining normal retirement age but after ten years of credited service, the beneficiary is entitled to a death benefit as indicated above but reduced by an early retirement factor provided by PSERS.
4. DISABILITY BENEFITS—After five years of credited service a participant who becomes disabled and meets the PSERS medical standards is eligible for an annuity which equals 2% of the highest three years earnings multiplied by the number of years of credited service. The disability determination is subject to periodic review.

Both the School District's current-year payroll and its total current-year payroll for all employees amount to \$XXX.X million.

The School District's and the Commonwealth percentages are equal and were 9.95% in Fiscal 19X2 and were decreased to 9.77% on January 1, 19X3. The employees rate was 5.25% but on July 22, 1983, a State law was passed which increased the rate to 6.25% for employees hired after that date.

Total contributions made during Fiscal 19X2 amounted to \$XXX.X million, of which \$XX.X million was contributed by the School District and \$XX.X million by School District employees. These contributions represented 10.02% and 6.15%, respectively, of covered payroll.

The amount of the total pension benefit obligation is based on standardized measurement established by GASB Statement 5 that, with some exceptions, must be used by a PERS. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date, and is adjusted for the effects of projected salary increases. A standardized measure of the pension benefit obligation was adopted by the GASB to enable readers of PERS financial statements to (a) assess the PERS funding status on a going-concern basis, (b) assess progress made in accumulating sufficient assets to pay benefits when due, and (c) make comparisons among PERS and among employers.

Total unfunded pension benefit obligation of the State PERS as of December 31, 19X2 was as follows:

	(Amounts in Billions)
Total Pension Benefit Obligations	\$XX.X
Net Assets Available for Pension Benefits, at Market	X.X
Unfunded Pension Benefit Obligation	\$ X.X

The measurement of the total pension benefit obligation is based on an actuarial valuation as of December 31, 19X1. Net assets available to pay pension benefits were valued as of the same date.

The School District's 19X2 required contribution to the State PERS represents 9.95% of the total current-year actuarially determined contribution requirements for all employers covered by the pension plan.

Ten-year historical trend information is presented in the 19X2 State PERS Comprehensive Annual Financial Report. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due.

During 19X2 and as of December 31, 19X2, the State PERS held no securities issued by the School District or other related parties.

#### **IX. Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salaries until future years. The City does not make any contributions to the plan. The deferred compensation is not available to employees until termination, retirement, or unforeseeable emergency. Deferred compensation is available to employees' beneficiaries in case of death.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City (without being restricted to the provisions of benefits under the plan), subject only to the claims of the City's general creditors. Participants' rights under the plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

In management's opinion, the City has no liability for losses under the plan. However, the City does have the duty of due care that would be required of an ordinary prudent investor. The City believes it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

All assets of the Plan are held by an independent administrator. It is appropriate to include this entity in the City's 19X2 financial statements since the City has title to these assets. The Deferred Compensation Fund is reported as an Agency Fund and its assets are presented at market value at September 30, 19X2.

#### **X. Intergovernmental Revenues—Debt Service Funds**

Under the provisions of state law, the state reimburses the City for a portion of the financing costs of various approved projects. Payments totaling \$XXX,XXX have been made through December 31, 19X2 including \$XX,XXX in 19X2 for projects financed by the proceeds of the 19V5 Street, Bridge and Drainage Improvement bonds. These amounts must be used to abate a portion of the tax levied for principal and interest payments due on the approved project bonds. These reimbursements represent approximately 45 percent of the debt service on the 19V5 Street, Bridge and Drainage Improvement bonds and are expected to average approximately \$XX,XXX annually until the bonds mature.

#### **XI. Litigation**

The City Council and the City are defendants in litigation seeking damages of \$XXX,XXX for violation of civil rights in a zoning decision. The suit alleges that the defendants conspired to down-zone property and refused to accept an application for a building permit by the plaintiff resulting in a violation of his civil rights. Outside counsel for the City is of the opinion that the defendants will prevail.

There are several other pending lawsuits in which the City is involved. The City Attorney estimates that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial statements of the City.



**XII. Commitments**

Commitments under lease agreements for facilities and equipment provide for minimum annual rental payments as follows:

	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
19X3	\$ XX,XXX	\$ XX,XXX	\$ XX,XXX
19X4	XX,XXX	XX,XXX	XX,XXX
19X5	XX,XXX	XX,XXX	XX,XXX
19X6	XX,XXX	XX,XXX	XX,XXX
19X7	XX,XXX	XX,XXX	XX,XXX
Thereafter	<u>XXX,XXX</u>	<u>—</u>	<u>XXX,XXX</u>
Total	<u>\$XXX,XXX</u>	<u>\$XXX,XXX</u>	<u>\$XXX,XXX</u>

19X2 rent expense was \$XX,XXX. Commitments under construction contracts are described in Note 4.

**XIII. Contingent Liabilities**

The City participates in a number of federally assisted grant programs, principal of which are the General Revenue Sharing, Community Development Block Grant, Comprehensive Employment Training Act, and Local Public Works programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for or including the year ended December 31, 19X2 have not yet been conducted. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

**XIV. Subsequent Event**

On February 13, 19X3, the City Council was officially notified that its application for a construction grant from the Environmental Protection Agency (EPA) was approved. Under the grant, the City is to construct a wastewater treatment plant at a total cost of approximately \$X,XXX,XXX. EPA will finance 75 percent of the total cost, approximately \$X,XXX,XXX, with the City financing the balance of \$XXX,XXX by issuing water and sewer revenue bonds. Construction is expected to commence in late 19X3 with completion currently scheduled for mid-19X5.

**Unqualified Opinion on the  
Financial Statements Submitted  
Together With Combining and Individual Fund and  
Account Group Financial Statements and Supporting  
Schedules as Supplementary Data\***

Independent Auditor's Report

We have audited the accompanying financial statements of [name of entity] as of December 31, 19X2, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of City of Example, Any State, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit 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 audit provides 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 City of Example, Any State, as of December 31, 19X2, and the results of its operations and cash flows of its proprietary and similar trust fund types for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of [name of entity]. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

[Signature]

[Date]

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\*If a schedule of federal financial assistance is reported on as supplementary data, *Government Auditing Standards*, issued by the Comptroller General of the United States, should be referenced in the second paragraph.

# **Compliance Report Based on an Audit of the Basic Financial Statements Performed in Accordance With Government Auditing Standards**

## Independent Auditor's Report

We have audited the financial statements of [name of entity] as of and for the year ended December 31, 19X2, and have issued our report thereon dated March 15, 19X3.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to City of Example, Any State, is the responsibility of City of Example, Any State, management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants.\* However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

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\*Based on assessments of materiality and audit risk, auditors may decide not to perform tests of compliance with certain provisions of laws, regulations, contracts, and grants. For example, an auditor may conclude that transactions and balances directly affected by laws and regulations are not material to the financial statements taken as a whole. In such circumstances, *Government Auditing Standards*, in paragraph 6 on page 5-2, states that ". . . the report should contain a statement that the auditor did not test for compliance with laws and regulations." The auditor's report should not include a statement of positive assurance; however, the assessments of materiality and audit risk provide a basis for the auditor to conclude that the likelihood of material instances of noncompliance is low. Thus, the auditor has a basis for expressing negative assurance about compliance under *Government Auditing Standards*. The following is an illustration of the auditor's report on compliance when, based on assessments of materiality and audit risk, the auditor concluded that it was not necessary to perform tests of compliance with laws and regulations:

[First two paragraphs are the same as in the above report.]

Compliance with laws, regulations, contracts, and grants applicable to City of Example, Any State, is the responsibility of City of Example, Any State, management. As part of our audit, we assessed the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants could cause the financial statements to be materially misstated. We concluded that the risk of such material misstatement was sufficiently low that it was not necessary to perform tests of the City's compliance with such provisions of laws, regulations, contracts, and grants.

However, in connection with our audit, nothing came to our attention that caused us to believe that City of Example, Any State, had not complied, in all material respects, with the laws, regulations, contracts, and grants referred to in the preceding paragraph.

[Fifth paragraph, signature, and date are the same as in the report illustrated above.]

The results of our tests indicate that, with respect to the items tested, City of Example, Any State, complied, in all material respects, with the provisions referred to in the preceding paragraph.\*\* With respect to items not tested, nothing came to our attention that caused us to believe that the City had not complied, in all material respects, with those provisions.

This report is intended for the information of the audit committee, management, and [*specify legislative or regulatory body*]. However, this report is a matter of public record and its distribution is not limited.

[*Signature*]

[*Date*]

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**\*\*Material instances of noncompliance** are failures to follow requirements or violations of prohibitions, contained in statutes, regulations, contracts, or grants, that cause the auditor to conclude that the aggregation of the misstatements (that is, the auditor's best estimate of the total misstatement) resulting from those failures or violations is material to the financial statements. When the auditor's procedures disclose material instances of noncompliance, the auditor should modify the statements of positive and negative assurance included in the report. The following is an illustration of the auditor's report on compliance when material instances of noncompliance are identified:

[*First three paragraphs are the same as in the report illustrated above.*]

Material instances of noncompliance are failures to follow requirements or violations of prohibitions, contained in statutes, regulations, contracts, or grants, that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the general purpose financial statements. The results of our tests of compliance disclosed the following material instances of noncompliance, the effects of which have been corrected in the 19X2 general purpose financial statements of City of Example, Any State.

[*Include paragraphs describing the material instances of noncompliance noted.*]

We considered these material instances of noncompliance in forming our opinion on whether the 19XX general purpose financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated March 15, 19X3 on those general purpose financial statements.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, City of Example, Any State, complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the City had not complied, in all material respects, with those provisions.

[*Last paragraph, signature, and date are the same as in the above report.*]

## **Report on the Internal Control Structure in Accordance With Government Auditing Standards**

### Independent Auditor's Report

We have audited the financial statements of [name of entity] as of and for the year ended December 31, 19X2, and have issued our report thereon dated March 15, 19X3.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

In planning and performing our audit of the general purpose financial statements of [name of entity] for the year ended December 31, 19X2, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

The management of [name of entity], is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories [*identify internal control structure categories*].

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.\*

*[Include paragraphs to describe the reportable conditions noted.]*

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of [name of entity], in a separate letter dated March 15, 19X3.

This report is intended for the information of the audit committee, management, and [specify legislative or regulatory body]. However, this report is a matter of public record and its distribution is not limited.

*[Signature]*

*[Date]*

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\*Paragraph 17 of SAS No. 60, *Communication of Internal Control Structure Related Matters Noted in a Financial Statement Audit*, prohibits the auditor from issuing a written report representing that no reportable conditions were noted during an audit. When the auditor notes no reportable conditions during an audit, he or she may issue a report, such as the following, to satisfy the requirements of *Government Auditing Standards*:

*[First through sixth paragraphs of the report are the same as those illustrated in the above example.]*

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under the standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of [name of entity], in a separate communication dated March 15, 19X3.

*[Last paragraph of the report is the same as that illustrated in the above example.]*

# Single Audit Opinion on Compliance With Specific Requirements Applicable to Major Federal Financial Assistance Programs

## Independent Auditor's Report

We have audited the financial statements of [name of entity] as of and for the year ended December 31, 19X2, and have issued our report thereon dated March 15, 19X3.

We have also audited [name of entity]'s compliance with the requirements governing [list specific requirements tested] that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance, for the year ended December 31, 19X2. The management of [name of entity] is responsible for [name of entity]'s compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about [name of entity]'s compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of findings and questioned costs. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, [name of entity] complied, in all material respects, with the requirements governing [list requirements tested] that are applicable to each of its major federal financial assistance programs for the year ended December 31, 19X2.

This report is intended for the information of the audit committee, management, and [specify legislative or regulatory body]. However, this report is a matter of public record and its distribution is not limited.

[Signature]

[Date]

# Single Audit Report on Compliance With the General Requirements Applicable to Federal Financial Assistance Programs

## Independent Auditor's Report

We have audited the financial statements of *[name of entity]* as of and for the year ended December 31, 19X2, and have issued our report thereon dated March 15, 19X3.

We have applied procedures to test *[name of entity]*'s compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the schedule of federal financial assistance, for the year ended December 31, 19X2. *[List the general requirements tested.]*

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's *Compliance Supplement for Single Audits of State and Local Governments* *[or describe alternative procedures performed]*. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on *[name of entity]*'s compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that *[name of entity]* had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying schedule of findings and questioned costs.

This report is intended for the information of the audit committee, management, and *[specify legislative or regulatory body]*. However, this report is a matter of public record and its distribution is not limited.

*[Signature]*

*[Date]*



# Single Audit Report on Compliance With Specific Requirements Applicable to Nonmajor Federal Financial Assistance Program Transactions

## Independent Auditor's Report

We have audited the financial statements of [*name of entity*] as of and for the year ended December 31, 19X2, and have issued our report thereon dated March 31, 19X3.

In connection with our audit of the financial statements of [*name of entity*] and with our consideration of [*name of entity*]'s control structure used to administer federal financial assistance programs, as required by Office of Management and Budget Circular A-128, "Audits of State and Local Governments," we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended December 31, 19X2. As required by Circular A-128, we have performed auditing procedures to test compliance with the requirements governing [*list requirements tested*] that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on [*name of entity*]'s compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that [*name of entity*] had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying schedule of findings and questioned costs.

This report is intended for the information of the audit committee, management, and [*specify legislative or regulatory body*]. However, this report is a matter of public record and its distribution is not limited.

[*Signature*]

[*Date*]

# Single Audit Report on the Internal Control Structure Used in Administering Federal Financial Assistance Programs

## Independent Auditor's Report

We have audited the financial statements of [name of entity], as of and for the year ended December 31, 19X2, and have issued our report thereon dated March 15, 19X3. We have also audited [name of entity's] compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated March 15, 19X3.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement and about whether [name of entity] complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the year ended December 31, 19X2, we considered the City's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the [name of entity's] financial statements and on its compliance with requirements applicable to major programs and not to provide assurance on the internal control structure. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed policies and procedures relevant to our audit of the financial statements in a separate report dated March 15, 19X3.

The management of [name of entity] is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories [*identify internal control structure categories*].<sup>1</sup>

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<sup>1</sup>Following are examples of different ways in which internal control structure policies and procedures used in administering federal financial assistance programs might be classified. The auditor should modify these examples or use other classifications as appropriate for the particular circumstances on which the auditor is reporting. However, there is no need to present detailed internal control structure policies and procedures, even though test work may be performed at that level.

### *General Requirements*

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property management
- Federal financial reports
- Allowable costs/cost principles
- Drug-free workplace
- Administration requirements

### *Specific Requirements*

- Types of services
- Eligibility
- Matching, level of effort, or earmarking
- Reporting
- Cost allocation
- Special requirements, if any
- Monitoring subrecipients

### *Claims for Advances and Reimbursements*

### *Amounts Claimed or Used for Matching*

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.<sup>2</sup>

During the year ended June 30, 19XX, [name of entity], expended X percent of its total federal financial assistance under major federal financial assistance programs.<sup>3</sup>

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the City's major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the City's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

[Include paragraphs to describe the reportable conditions noted.]

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

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<sup>2</sup>If a cyclical approach is used, the sixth paragraph of this report should be modified, and a paragraph that clearly describes the coverage provided for nonmajor programs should be added after the sixth paragraph, as follows:

Because of the large number of nonmajor programs and the decentralized administration of these programs, we performed procedures to obtain an understanding of the internal control structure policies and procedures relevant to nonmajor programs on a cyclical basis. Our procedures during the current year covered X percent of the nonmajor programs administered by the City as a whole. The nonmajor programs not covered during the current year have been or are expected to be subject to such procedures at least once during the X year cycle.

<sup>3</sup>If total assistance expended under major federal financial assistance programs is less than 50 percent of total federal assistance expended by the recipient organization during the year under audit, the auditor should follow the guidance in Statement of Position 90-9, *The Auditor's Consideration of the Internal Control Structure Used in Administering Federal Financial Assistance Programs Under the Single Audit Act*, paragraph 10 to satisfy the objectives of the Single Audit Act. When such guidance is followed the seventh and eighth paragraphs of the report on the internal control structure used to administer federal financial assistance programs should be modified as follows:

During the year ended December 31, 19X2, [name of entity] expended X percent of its total federal financial assistance under major federal financial programs and the following nonmajor federal financial assistance programs: (list appropriate nonmajor federal financial assistance programs.)

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structures policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the City's major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance, and the aforementioned nonmajor programs. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

However, we believe none of the reportable conditions described above is a material weakness.<sup>4</sup>

We also noted other matters involving the internal control structure and its operation that we have reported to the management of *[name of entity]* in a separate letter dated March 15, 19X3.

This report is intended for the information of the audit committee, management, and *[specify legislative or regulatory body]*. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*[Signature]*

*[Date]*

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(Footnote Continued)

If the recipient organization had no major federal financial assistance programs during the year under audit, the auditor should follow the guidance in paragraph 12 of SOP 90-9, to satisfy the objectives of the Single Audit Act. When such guidance is followed, the seventh and eighth paragraphs of the auditor's report on the internal control structure should be modified as follows:

During the year ended December 31, 19X2, *[name of entity]* had no major federal financial assistance programs and expended X percent of its total federal financial assistance under the following nonmajor federal financial assistance programs: *[list appropriate nonmajor federal financial assistance programs]*.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structures policies and procedures that we have considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to the aforementioned nonmajor programs.

Our procedures were less in scope than would be necessary to render an opinion on these internal control structures policies and procedures. Accordingly, we do not express such an opinion.

Also, the report would omit references to an audit of compliance with requirements applicable to major federal financial assistance programs.

<sup>4</sup>If conditions believed to be material weaknesses are disclosed, the report should describe the weaknesses that have come to the auditor's attention and may state that these weaknesses do not affect the report on the audit of compliance with requirements applicable to major federal financial assistance programs. The last sentence of this paragraph of the report should be modified as follows:

However, we noted the following matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of *[name of entity]* compliance with requirements applicable to its major federal financial assistance programs for the year ended December 31, 19X2 and this report does not affect our report thereon dated March 15, 19X3.

*[A description of the material weaknesses that have come to the auditor's attention would follow..]*

## Report on Supplementary Information—Schedule of Federal Financial Assistance

### Independent Auditor's Report

We have audited the financial statements of *[name of entity]*, for the year ended December 31, 19X2, and have issued our report thereon dated March 15, 19X3. These financial statements are the responsibility of *[name of entity]*'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of *[name of entity]*, taken as a whole. The accompanying schedule of federal financial assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

*[Signature]*

*[Date]*

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## State and Local Governmental Developments—1992

### Economic and Industry Conditions

The economic distress of 1990 and 1991 has continued into 1992 and is continuing to affect governments in many ways. Many of the economic factors that had a significant impact on the finances and operations of governments last year are present this year as well. Declining tax bases continue to cause property tax revenues to fall below budgeted levels, decreases in consumer spending continue to result in declining sales tax revenues, and higher unemployment figures continue to translate into lower income tax revenues. At the same time, demand for the services rendered by governments continues to increase, resulting in upward pressure on expenditures. Increasing expenditures and declining revenues place more and more pressure on governments to balance their budgets. To meet requirements to adopt balanced budgets, some governments use fund balance to reduce or eliminate the shortfall of revenues over expenditures. Others may consider using accounting adjustments to reduce or eliminate such shortfalls. "One-shot adjustments" similar to those used by some governments in the past may be used by still others this year. Such adjustments have included—

- Delaying payment of employee salaries or benefits to reduce expenditures reported in cash-based budgets.
- Making transfers to the general fund from other funds, to decrease the budgeted and generally-accepted-accounting-principles-(GAAP-) based deficit of the general fund without improving the financial condition of the government.
- Selling assets, restructuring debt, reducing scheduled contributions to pension funds, and deferring scheduled maintenance, all of which can give the appearance of improving a government's current financial position.
- Delaying payments to internal service funds for insurance and other services.

When such measures are taken, auditors should consider whether any existing legal or contractual requirements have been violated, and whether adequate disclosure has been made in the financial statements.

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### *The Political Environment*

Because governments operate in a politically sensitive environment, the potential impact of mismanagement, defalcations, and noncompliance with laws and regulations usually attracts a greater amount of attention than in other environments. Many governments have adopted legislation on financial accountability and internal controls because of the increased public focus on the fiscal accountability of elected officials and government employees. Such legislation often includes—

- Guidelines on conflicts of interest and ethics.
- Requirements for competitive bidding for purchases of goods or services.
- Restrictions on the use of discretionary funds.
- Restrictions on travel and entertainment expenses.
- Restrictions on the private use of publicly owned property (for example, automobiles).
- Restrictions on outside political activities.
- Restrictions on lobbying.
- Tax reporting requirements (for example, Internal Revenue Service Form 1099 and arbitrage interest rebates).
- Guidelines governing investment policies.
- Requirements to implement controls to prevent budgets from being exceeded or amended.

### *The Audit Environment*

Audit quality and high-risk federal financial assistance programs continue to be of great concern to federal grantor agencies as well as the Office of Management and Budget (OMB) and the General Accounting Office (GAO). Recent semiannual reports of the President's Council on Integrity and Efficiency (PCIE) Standards Subcommittee indicate that federal Inspectors General (IGs) continue to find significant reporting and auditing deficiencies that have caused audit reports to be rejected. The deficiencies include the following:

- Reports on internal control structure do not identify the categories of significant controls.
- Schedules of federal financial assistance do not identify the source of federal funds.
- Working papers do not document the audit plan or audit program.

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- Working papers do not support the reports on compliance.
  - Written representations from management and attorneys are not obtained.
  - The status of findings in prior audits is not addressed.
  - Reports on compliance, internal controls, or both are missing.

The AICPA has formed a task force to work with the federal IGs to determine the causes of these deficiencies. Auditors who issue deficient audit reports or perform inadequate procedures may be subject to remedial or corrective action, including suspension or debarment from performing further audits of recipients of federal funds.

### *Specific Industry Conditions or Risk Factors*

*Federal Programs.* Activities related to participation by state and local governments in federally sponsored programs are subject to a number of federal laws and regulations. Auditors should be alert to the potential for mismanagement of federally sponsored programs as well as to instances of noncompliance with the requirements applicable to those programs: for example, using federal funds for personal travel, making payments to ineligible persons, false reporting, reporting unallowable costs either as direct or indirect costs, not adhering to administrative cost limits, and using federal funds to inappropriately support general government activities.

*Complex Laws and Regulations.* The complexity of the laws and regulations to which state and local governments may be subject increases the risk of noncompliance. Areas of noncompliance may include, for example: expenditures in excess of legally adopted budgets; failure to follow prescribed collateralization requirements for deposits and investments; failure to comply with investment restrictions; failure to comply with arbitrage regulations and rebate rules; and improper withholding, reporting, and remitting of payroll taxes.

Statement on Auditing Standards (SAS) No. 54, *Illegal Acts by Clients*, requires that audits be designed to detect noncompliance with those laws and regulations that could have a direct and material effect on the determination of financial statement amounts. In order to meet that requirement, auditors should assess whether management has identified laws and regulations that have a direct and material effect on the determination of amounts in the governmental entity's financial statements. In addition, written representations obtained from management should include an acknowledgment of the fact that all laws and regulations, noncompliance with which would have a direct and material effect on the determination of financial statement amounts, have been identified and disclosed to the auditor.



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*Going-Concern Review.* In the past, governments were assumed to have an unlimited ability to raise revenues to support their operations and to service long- and short-term debt. However, the current economic environment and taxpayer initiatives, as well as limitations on the incomes and resources of taxpayers, have restricted governments' ability to raise revenues through their taxing powers. SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, states that, as part of every audit, the auditor has a responsibility to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being audited. In performing an audit of a state or local government, the auditor might identify conditions such as those listed below that may indicate that there could be substantial doubt about the government's ability to continue as a going concern for a reasonable period of time.

- Defaults on debt (for example, when revenues are less than originally forecasted for the repayment of revenue bonds).
- Large unfunded pension obligations combined with diminishing revenues and a declining tax base (for example, a declining population; lower school enrollment; reduced per capita personal income; and reductions in the number and value of building permits, business licenses, or retail sales).
- An increasing reliance on external funding.
- Reliance by a fund incurring large deficits on continued support from other funds to support its activities or operations (for example, reliance by a transit system on support from a general fund, or reliance by general government operations on support from a lottery).

*Deposits and Investing Activities.* The following factors relating to deposits and investments may increase audit risk:

- Undocumented, unapproved, or inadequate investment policies, procedures, and controls
- Lack of required collateral, or insufficient collateral based on current market values, for uninsured deposits
- Certain investments and investing activities, such as repurchase and reverse-repurchase agreements, margin accounts, venture capital, securities with maturities that exceed the period in which the funds will be required to meet short-term cash needs, securities with high rates of return and corresponding high market risk, and trading and "churning"

Governmental Accounting Standards Board (GASB) Statement No. 3, *Deposits With Financial Institutions, Investments (Including Repurchase*

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*Agreements), and Reverse Repurchase Agreements*, provides guidance on the disclosure of deposits and investment activities of governmental entities. In December 1991, the GASB issued guidance on the implementation of GASB Statement No. 3. *The Implementation Guide, Guide to Implementation of GASB Statement 3 on Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*, is the first in a series of question-and-answer (Q&A) publications to be issued and was specifically developed to aid financial statement preparers in the implementation and application of GASB Statement No. 3 and Technical Bulletin No. 87-1, *Applying Paragraph 68 of GASB Statement 3*.

*Self-Insurance Arrangements and Incurred-But-Not-Reported (IBNR) Claims.* Self-insurance or pool insurance arrangements have become increasingly popular as a result of increases in premiums charged by insurance companies. These arrangements typically cover employee medical, workers' compensation, vehicle collision, general liability, and property insurance. Government funding of many of these risks is often determined based on available resources rather than on sound actuarial methodologies and assumptions. In such cases, a government may have inadequate reserves to cover losses. Furthermore, improper accounting for IBNR claims may result in underreporting of liabilities and inadequate disclosures.

Guidance on accounting for and reporting on self-insurance activities and IBNR claims can be found in chapter 10 of the AICPA Audit and Accounting Guide *Audits of State and Local Governmental Units*. GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, is not yet effective for entities other than public entity risk pools, although some governments have elected to comply with its requirements.

Auditors should call their clients' attention to possible problems, such as inadequate loss experience data, that may arise when GASB Statement No. 10 is initially implemented. The statement's requirements affecting public entity risk pools were effective for financial statements for periods beginning after June 15, 1990.

## **Regulatory Developments**

### ***Revision of OMB Circular A-21***

In October 1991, the OMB published Revised Transmittal Memorandum No. 4 (which revised Circular A-21, *Cost Principles for Educational Institutions*) in the Federal Register. In releasing Revised Transmittal Memorandum No. 4, the OMB noted that its revisions represent the

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initial step in a broader effort to comprehensively revise Circular A-21. For costs charged directly to sponsored agreements, the revision to Circular A-21 is effective for agreements awarded or amended on or after October 1, 1991; for costs charged indirectly, the revision is applicable on October 1, 1991; the certifications with respect to unallowable costs apply to all indirect cost proposals submitted on or after October 1, 1991; and the 26 percent limitation on administrative costs applies to all agreements awarded or amended on or after the start of the institution's first fiscal year beginning on or after October 1, 1991.

#### ***A-133 Compliance Supplement Issued***

Also in October 1991, the OMB issued its *Compliance Supplement for Audits of Institutions of Higher Learning and Other Non-Profit Institutions* (A-133 Compliance Supplement). As is the case with the *Compliance Supplement for Single Audits of State and Local Governments*, the A-133 Compliance Supplement sets forth the compliance requirements that are to be considered in organization-wide audits of universities and other not-for-profit institutions that receive federal assistance. It describes general requirements that are considered in all financial and compliance audits, common requirements for research and development programs and student financial aid programs, and requirements that are specific to the larger agency programs. Each requirement is accompanied by suggested audit procedures. While the general requirements are similar to those applicable to single audits of state and local governments, the A-133 Compliance Supplement contains eight, rather than nine, general requirements. The general compliance requirement relating to relocation assistance and real property acquisition is excluded from the A-133 Compliance Supplement.

#### ***Consolidated Audit Guide Issued by HUD***

In late 1991, the U.S. Department of Housing and Urban Development (HUD) issued the *Consolidated Audit Guide for Audits of HUD Programs* (HUD Guide). The HUD Guide prescribes requirements for audits of HUD-assisted programs for entities other than those covered by OMB Circulars A-128, *Audits of State and Local Governments*, and A-133, *Audits of Institutions of Higher Education and Other Non-Profit Institutions*, and is effective for audits of fiscal years ended December 31, 1991, and thereafter. It supplants the HUD audit guides for: *Mortgagors Having HUD-Insured or Secretary-Held Multifamily Mortgages*, *Issuers of GNMA Mortgage-Backed Securities*; *HUD-Approved Nonsupervised Mortgages*, *Loan Correspondents*, and *Coinsuring Mortgages*; and *Auditing Development Costs of HUD-Insured Multifamily Projects*. In response to members' concerns about the implementation of the guide, the AICPA and HUD

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have developed a list of unofficial questions and answers. The list is available from the AICPA Washington office.

### ***Indirect Overhead Billed to Federal Agencies***

Several federal agencies are continuing their inquiries of universities that receive federal research grants. Federal research grants generally represent reimbursements for direct costs related to research projects and indirect costs representing overhead items not directly related to projects. The inquiries are focusing on the nature of the costs billed to federal agencies in conjunction with research conducted by the institutions. Auditors should be mindful of the growing concern that indirect cost pools may include costs that might eventually be disallowed.

### **Auditing Federal Financial Assistance**

Depending on the amount and source of federal financial assistance they receive, state and local governments may be required to satisfy audit and reporting requirements described in *Government Auditing Standards* issued by the Comptroller General of the United States (often called the "Yellow Book"); the Single Audit Act of 1984; other federal agency policies and regulations; and agreements or contracts with federal agencies.

Federal IGs are required by law to ensure that audit work conducted by nonfederal auditors of government organizations, programs, activities, and functions complies with government auditing standards as set forth in *Government Auditing Standards*. These standards include requirements for reporting on financial-related audits, compliance with laws and regulations, and internal controls. Nonfederal auditors are required to follow these standards when they assert that their audits are conducted in accordance with *Government Auditing Standards*.

The Single Audit Act of 1984 requires each state and local government that receives a total amount of federal financial assistance equal to or in excess of \$100,000 in any fiscal year to have an audit performed for that year in accordance with its requirements. Governments that provide federal grant funds to other organizations through a subgrant relationship are required to monitor the subrecipient organization's compliance with the applicable federal audit requirements.

### ***Other Audit Requirements***

Other federal policies and regulations (such as OMB circulars and related compliance supplements) and federal department audit guides

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or handbooks also may contain audit requirements. OMB compliance supplements are intended to provide uniform audit and reporting requirements for federal agencies and departments. Agreements or contracts between a state or local government and a federal department or agency also may specify additional audit requirements. When performing a program or grant audit, auditors should determine whether there are audit guide requirements in addition to those contained in the program or grant agreement or contract.

The PCIE Standards Subcommittee has prepared a summary of program audit guides that classifies program audit guides as active or inactive and indicates planned revision dates as of October 1991. The summary is available from the PCIE distribution center (see "References for Additional Guidance").

### *Single Audit Reporting Issues*

Single audit reporting issues continue to arise as a result of changing professional standards and federal regulations. Listed below are several single-audit reporting issues that are frequently encountered in practice.

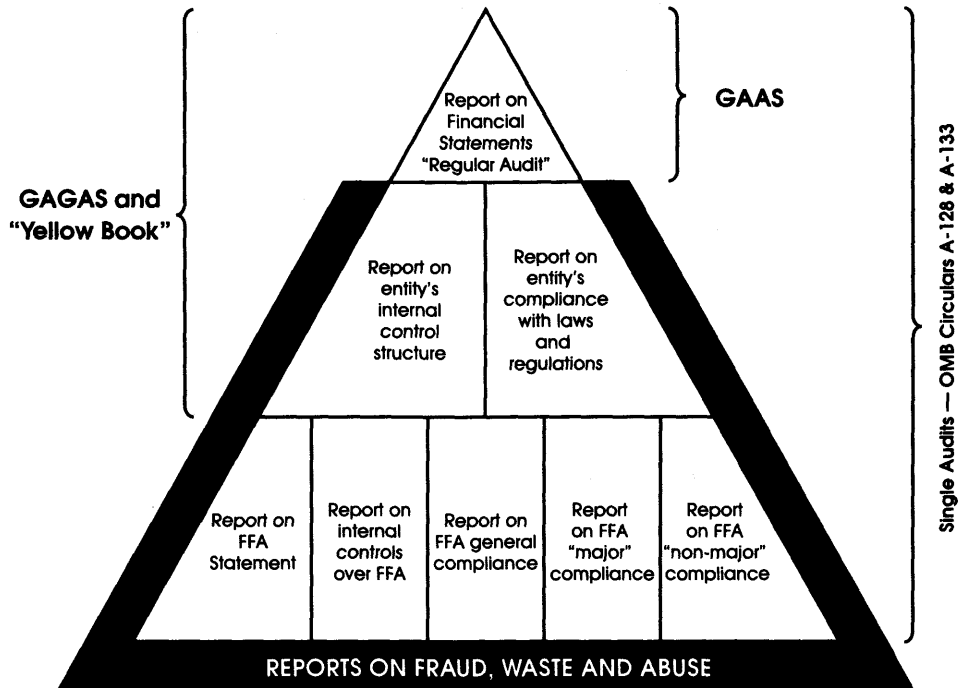
*Required Reports.* An illustration of the reports required is provided in exhibit 1.

*Reporting on Compliance With Laws and Regulations.* Both *Government Auditing Standards* and OMB Circular A-128 require auditors to prepare reports on compliance with laws and regulations. *Government Auditing Standards* requires auditors to prepare a written report on compliance with laws and regulations that may have a material effect on the financial statements. That report is based on the results of procedures performed as part of the audit of financial statements. OMB Circular A-128 requires that, in addition to the report required by *Government Auditing Standards*, auditors report on compliance with specific laws and regulations that may have a material effect on each major federal financial assistance program, as defined by the Single Audit Act of 1984, on compliance with certain laws and regulations applicable to nonmajor federal financial assistance programs, and on compliance with the general requirements applicable to the federal financial assistance. SAS No. 68, *Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance*, provides detailed guidance on these reporting requirements.

*Reporting Instances of Noncompliance.* *Government Auditing Standards* require that the auditor's report on compliance with laws and regulations that may have a material effect on the financial statements include all material instances of noncompliance. However, when reporting on

**Exhibit 1  
Levels of Reporting in Governmental Single Audits\***

**GAAS vs. GAGAS vs. SINGLE AUDIT**



**GAAS = 1 Report**

**GAGAS = 3 (possibly 4) Reports**

**Single Audit = 8 (possibly 9) Reports**

\*See also the section of this ARA entitled "Revision of SAS No. 63."

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compliance with laws and regulations applicable to federal financial assistance programs as required by OMB Circular A-128, the auditor is to report all instances of noncompliance as findings. Materiality is considered, however, in expressing an opinion on compliance with laws and regulations in such audits.

*Reporting on Internal Controls.* When reporting on internal controls as required by *Government Auditing Standards*, the auditor should describe the significant categories of internal control structure policies and procedures that were considered as part of the financial statement audit, including the controls established to assure compliance with laws and regulations having a direct and material effect on financial statement amounts.

When federal financial assistance is material to the financial statements, the auditor's report on internal controls should describe the control categories related to ensuring compliance with the general and specific requirements.

Statement of Position (SOP) 90-9, *The Auditor's Consideration of the Internal Control Structure Used in Administering Federal Financial Assistance Programs Under the Single Audit Act*, issued in November 1990, provides guidance on the auditor's responsibilities for considering the internal control structure used in administering federal financial assistance programs and reporting on the internal control structure in audits conducted in accordance with the Single Audit Act and OMB Circular A-128. The SOP amends chapter 21 of the AICPA *Audit and Accounting Guide Audits of State and Local Governmental Units* and supersedes example 26 of SOP 89-6, *Auditor's Reports in Audits of State and Local Governmental Units*. SOP 90-9 updates the guide and SOP 89-6 to include conclusions set forth in statements on auditing standards that were issued since the guide was originally published. SOP 90-9 is effective for audits performed in accordance with the Single Audit Act of 1984 for fiscal periods beginning on or after January 1, 1991.

SOP 90-9 requires auditors to perform tests of controls to evaluate the effectiveness of the design and operation of internal control structure policies and procedures relevant to detecting or preventing noncompliance with applicable requirements to major programs. The SOP prescribes a minimum requirement, the 50 percent rule, for determining the sufficiency of those tests of controls. The 50 percent rule stipulates that if major programs constitute less than 50 percent of total federal expenditures, or if there are no major programs, the auditor should perform tests of controls used in administering the largest programs until systems related to the administration of at least 50 percent of federal financial assistance program expenditures are subject to tests of controls. The rule applies only to tests of controls to evaluate the effectiveness of the design and operation of internal control structure

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policies and procedures relevant to preventing or detecting material noncompliance with specific, general, and certain other requirements. It does not apply to performing substantive tests of compliance with laws and regulations. The results of tests of controls performed to satisfy the 50 percent rule should be considered by the auditor in determining the extent of substantive testing required to form a basis for issuing an opinion on compliance with laws and regulations applicable to major federal financial assistance programs, as described in SAS No. 68.

## **Audit Developments**

### ***SAS on the Confirmation Process***

The AICPA Auditing Standards Board issued SAS No. 67, *The Confirmation Process*, in November 1991. It provides guidance on the confirmation process in audits performed in accordance with generally accepted auditing standards (GAAS). It supersedes paragraphs 3 through 8 of SAS No. 1, *Codification of Auditing Standards and Procedures* (AICPA, *Professional Standards*, vol. 1, AU sec. 331.03–08) and the portion of paragraph 1 of AU sec. 331 that addresses the confirmation of receivables. It is effective for audits of fiscal periods ending after June 15, 1992, although early application is permissible.

### ***Revision of SAS No. 63***

Since the issuance of SAS No. 63, *Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance*, certain developments that affect the guidance provided by that Statement have occurred. Such developments include the issuance of OMB Circular A-133 and a revision of the OMB *Compliance Supplement for Single Audits of State and Local Governments*. In addition, the Auditing Standards Board became aware of other issues related to the implementation of SAS No. 63 that required clarification. To address these matters, the Auditing Standards Board has issued SAS No. 68.

SAS No. 68 supersedes SAS No. 63 and—

- Provides guidance on the auditor's responsibility when, during an audit in accordance with GAAS, the auditor becomes aware that the entity is subject to an audit requirement that may not be encompassed in the terms of the engagement.
- Requires the issuance of a report on the general requirements in an audit conducted in accordance with the Single Audit Act of 1984 and OMB Circular A-128, whether or not the entity has major programs. (SAS No. 63 required this report only when the entity had major programs.)



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- Provides guidance on the auditor's compliance auditing responsibilities under OMB Circular A-133.
  - Provides guidance on the auditor's responsibilities when engaged to conduct a program-specific audit.
  - Eliminates from the appendixes of SAS No. 63 certain excerpts of the *Compliance Supplement for Single Audits of State and Local Governments* that have been superseded. (To ensure that they are using up-to-date guidance, practitioners should refer to the appropriate federal sources to obtain the applicable federal requirements.)

SAS No. 68 is effective for audits of financial statements and of compliance with laws and regulations for fiscal periods ending after June 15, 1992.

### ***Proposed SOP on Single Audits***

An exposure draft of a proposed SOP, *Audits of State and Local Governmental Entities Receiving Federal Financial Assistance*, was issued in 1991 to update the chapters of the Audit and Accounting Guide *Audits of State and Local Governmental Units* that provide guidance on audits conducted in accordance with the Single Audit Act of 1984. The proposed SOP incorporates the guidance in the 1988 revision of *Government Auditing Standards*, SOP 89-6, SOP 90-9, SAS No. 68, and the 1990 revision of the OMB's Circular A-128 Compliance Supplement. The proposed SOP is intended to provide detailed guidance to auditors. It also provides additional reporting guidance when there is uncertainty about the resolution of instances of noncompliance with specific or general requirements applicable to an entity's federal financial assistance programs. A complete revision of the chapters of *Audits of State and Local Governmental Units* dealing with matters other than the Single Audit Act of 1984 is underway, and an exposure draft of those revisions is expected to be issued in late 1992.

### ***Access to Working Papers***

An increasing number of agencies have requested access to or photocopies of working papers from auditors. Such requests raise concerns that copies of working papers may be used inappropriately without the auditor's knowledge or consent, resulting in increased risks of allegations of malpractice associated with performing these audits. Agency requests usually refer to contracts with the auditor, engagement letters signed by the auditor, the Yellow Book, AICPA Audit and Accounting Guides, and existing or proposed legislation as requiring auditors to comply with such requests.

An AICPA task force has been established to address questions arising from these requests. The task force is developing guidance on

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whether primary regulators should share working papers with other regulators, and whether working papers so obtained are then subject to public access under the Freedom of Information Act. The guidance will be discussed in the *CPA Letter* when it is finalized.

### ***Condensed Financial Reporting***

Condensed (or summary) financial reporting is becoming a popular reporting method with certain governments. Condensed financial statements present a summary of all or some of the fund types and account groups maintained by the government. A common method is to present the financial statements for an entire government's operations in a single column.

Often the auditor is engaged, or required by professional standards, to report on condensed financial statements (for example, when the condensed financial statements are presented in an auditor-submitted document that contains audited financial statements and the auditor's report thereon). The form and content of the data presented and the nature of the document in which the data are presented generally dictate the reporting guidance to be followed.

Guidance on reporting on summary financial information is found in SAS No. 29, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* (AICPA, *Professional Standards*, vol. 1, AU sec. 551), and SAS No. 42, *Reporting on Condensed Financial Statements and Selected Financial Data* (AU sec. 552). SAS No. 29 provides guidance on reporting on condensed financial statements or selected financial data that accompany audited financial statements in an auditor-submitted document. SAS No. 42 provides guidance on reporting in a client-prepared document on condensed financial statements or selected financial data derived from audited financial statements. Although these Statements allow certain reporting if condensed financial statements accompany general-purpose financial statements from which they were summarized, current auditing literature requires that an auditor's opinion about compliance with GAAP be adverse because of inadequate disclosure when condensed financial statements are presented as stand-alone statements.

Additional guidance on reporting on summary financial information is being developed by the AICPA Government Accounting and Auditing Committee.

### ***Hierarchy of Generally Accepted Accounting Principles***

SAS No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles in the Independent Auditor's Report*, creates a hierarchy specifically for state and local governments. SAS No. 69 raises AICPA SOPs and audit and accounting guides to a level

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of authority above that of industry practice. Under the new hierarchy, Financial Accounting Standards Board (FASB) pronouncements will not apply to state and local governments unless the GASB issues a standard incorporating them into GAAP for state and local governments. SAS No. 69 is effective for audits of financial statements for periods ending after March 15, 1992.

## **Accounting Developments**

### ***Disclosures About the Fair Value of Financial Instruments***

The GASB's *Codification of Governmental Accounting and Financial Reporting Standards* states that proprietary funds should use GAAP that are used by similar businesses in the private sector. Thus, governmental entities that use enterprise fund accounting should be cognizant of the requirements of FASB Statement No. 107, *Disclosures about the Fair Value of Financial Instruments*, which requires that the fair value of financial instruments, both assets and liabilities recognized and not recognized in the statement of financial position, be disclosed either in the body of the financial statements or in the accompanying notes. Statement No. 107 is effective for fiscal years ending after December 15, 1992; however, entities with less than \$150 million in total assets in the current balance sheet may defer application of the statement until fiscal years ending after December 15, 1995.

An example of a financial instrument held by a governmental unit using enterprise fund accounting is loans receivable for residential mortgages held by a state housing authority. The fair value of such a financial instrument might be estimated by using quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. If such quoted market prices are not available, fair value could be estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

### ***Measurement Focus and Basis of Accounting***

The GASB is currently reexamining the basic concepts underlying governmental accounting and financial reporting. A fundamental step in this reexamination process was the issuance of GASB Statement No. 11, *Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements*, which is effective for financial statements for periods beginning after June 15, 1994. The extended effective date is necessary to allow adequate time for the GASB to develop, expose, and issue the other recognition and measurement standards that will be necessary to implement the flow-of-financial-resources measurement focus for

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governmental fund operating statements and to develop a reporting model. Because of the significance of the accounting and display issues remaining to be addressed, the GASB decided to implement Statement No. 11 within the context of the current reporting model rather than delay the effective date of Statement No. 11. Therefore, the GASB is currently working on a document to present preliminary views on implementing Statement No. 11 within the current reporting model.

As the GASB reexamines other areas of governmental accounting and financial reporting, additional statements will be issued. Early application of GASB Statement No. 11 is prohibited.

### ***Compensated Absences***

In December 1991 the GASB issued an exposure draft of a proposed Statement, *Accounting for Compensated Absences*. The proposed Statement would provide guidance on the measurement of accrued compensated absences liabilities by state and local governmental entities. The GASB is expected to issue a final Statement by the end of the year. The Statement is expected to be effective for financial statements for periods beginning after June 15, 1993. However, for governmental and other similar trust funds, only the current portion of the liability would be reported in the funds; the remainder would be reported in the General Long-Term Debt Account Group, and compensated absences expenditures would be recognized using the modified accrual basis of accounting. The provisions of the proposed statement for recognizing governmental and similar trust fund expenditures using an accrual basis of accounting would take effect at the same time as GASB Statement No. 11 takes effect.

### ***Reporting Entity***

In July 1991 the GASB issued Statement No. 14, *The Reporting Entity*, which is effective for financial statements for periods beginning after December 15, 1992 (earlier application is encouraged). Statement No. 14 establishes standards for defining and reporting on the financial reporting entity and applies to financial reporting by primary governments as well as to separately issued financial statements of governmental component units. Statement No. 14 defines the financial reporting entity as consisting of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

A primary government is financially accountable for those organizations that make up the legal entity as well as legally separate organizations if the primary government appoints a voting majority of an

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organization's governing body, and either it can impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. Currently, the definition of the reporting entity is based on the inclusion of those units over which the primary government has oversight responsibility.

Most organizations determined to be component units under Statement No. 14 should be included in the financial reporting entity by discrete presentation—that is, by presentation in one or more columns separate from the financial data of the primary government. However, some component units may, in substance, be the same as the primary government and should be reported as part of the reporting entity—that is, the component unit's balances and transactions are reported in a manner similar to those of the primary government, by "blending." It is likely that an organization considered to be a component unit under existing standards and "blended" will continue to be considered a component unit under Statement No. 14; however, according to Statement No. 14, that component unit will probably be reported by discrete presentation. If the primary government has an equity interest in a joint venture, Statement No. 14 requires that the equity interest be reported as an asset of the fund that has the equity interest. For proprietary funds, an equity interest should be reported in the balance sheet and the share of the joint venture's net income or loss should be reported in the operating statement. For governmental funds, all or a portion of the equity interest should be reported in the general fixed assets account group.

### ***Reporting and Accounting Model for Governmental Colleges and Universities***

In October 1991, the GASB issued Statement No. 15, *Governmental College and University Accounting and Financial Reporting Models*, to clarify GAAP for governmental colleges and universities. Statement No. 15 is effective for financial statements for periods beginning after June 15, 1992, with early application encouraged.

In general, governmental colleges and universities currently report using one of two models: (1) the AICPA model, following the Industry Audit Guide *Audits of Colleges and Universities*, as amended by SOP 74-8, *Financial Accounting and Reporting by Colleges and Universities*, or (2) the government model, established by the National Council on Governmental Accounting Statement No. 1, *Governmental Accounting and Financial Reporting Principles*. However, research indicated that some governmental colleges and universities do not conform completely with either model. Further, the research also indicated that, contrary to the current hierarchy, some governmental colleges and universities

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believe that GASB disclosure requirements do not apply to entities following the AICPA model. GASB Statement No. 15 recognizes that either the AICPA or the governmental model is acceptable, and that the model used must be followed completely. Statement No. 15 also states that those following the AICPA model are required to adopt all applicable GASB pronouncements. (Some respondents to the exposure draft expressed concern about the lack of guidance on defining what is “governmental” for purposes of distinguishing between “governmental” and “private” colleges. In the “Basis for Conclusions” section, the GASB notes that such a definition is being developed for approval by the Financial Accounting Foundation.)

## References for Additional Guidance

### AICPA

The following are some publications that may be of interest to auditors of state and local governmental units:

- *Checklists and Illustrative Financial Statements for State and Local Governmental Units* (April 1992) (No. 008503; \$20.00).
- *Financial Report Survey: Illustrations of Compliance Findings in Single Audit Reports of Local Governmental Units* (No. 037989; \$21)—This is a survey of reporting under the Single Audit Act of 1984 and OMB Circular A-128. It is primarily intended to help auditors of local governmental units prepare a schedule of compliance findings and questioned costs, as required by the Single Audit Act of 1984. This publication presents, by federal agency, more than 100 examples of compliance findings and questioned costs.
- *Local Governmental Accounting Trends and Techniques* (No. 009717; \$60.00)—This survey is based on a line-by-line analysis of 500 local governmental reports with fiscal years ending in July 1989.
- *Local Governmental Audit and Accounting Manual* (No. 007302; \$35.00). This manual includes sample auditor’s reports, a local governmental audit program, disclosure checklists and illustrative financial statements, illustrative internal control structure questions, and a partner’s engagement review program for state and local governmental units.

*AICPA CPE Courses.* The AICPA Governmental Accounting and Auditing Certificate of Educational Achievement program consists of the following series of Continuing Professional Education (CPE) courses:

- “Governmental Accounting Principles and Financial Reporting” (GAA1)

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- "Financial Audits of Governmental Entities" (GAA2)
  - "Auditing and Reporting Under Government Auditing Standards" (GAA3)
  - "Auditing Under the Single Audit Act" (GAA4)

On successful completion of the program, the participant is awarded a certificate.

In addition, the AICPA offers the following group-study and self-study courses:

- Group study:
  - "Accounting for Governmental Units Under GASB"
  - "Audit Requirements of OMB Circular A-133"
  - "Audits of HUD-Assisted Projects"
  - "Advanced Accounting for Governmental Units Under GASB"
  - "Advanced Government Auditing and Reporting Issues"
  - "Audits of State and Local Governmental Units"
  - "Audits of Student Financial Assistance Programs"
  - "How to Communicate Material Noncompliance and Material Internal Control Weaknesses"
  - "Compliance Auditing"
  - "Intermediate Auditing of Federal, State and Local Compliance Requirements"
  - "Impact of the Single Audit Concept on Your Practice"
  - "Government Accounting and Auditing Update"
  - "Introduction to Accounting Requirements for Government Contracts"
  - "Performance Auditing"
  - "1988 Yellow Book: Government Auditing Standards"
- Self-study:
  - "Introduction to Governmental Accounting"
  - "Performing a Single Audit"
  - "Audits of State and Local Governmental Units"
  - "Understanding Federal Audit Policies and Procedures"
  - "Working with the 1988 Revised Yellow Book on Government Auditing Standards"
  - "Audit Requirements of OMB Circular A-133"
  - "Audits of HUD-Assisted Projects"

For more information about AICPA CPE courses, call the AICPA information hotline at (800) 242-7269 (except New York) or (212) 575-5696 (New York only).

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## **GASB**

The Governmental Accounting Standards Board has the following publications and services:

- *Codification of Government Accounting and Financial Reporting Standards*, as of May 31, 1990 (GCD90).
- *Original Pronouncements*, as of May 31, 1991 (GOP91).
- *Implementation Guides*—These Question and Answer Special Reports are an occasional service containing implementation guidance for GASB standards. The first in the series (on GASB Statement No. 3), *Guide to Implementation of GASB Statement 3 on Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, is now available. Another Implementation Guide (on GASB Statement No. 9), *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, is expected to be issued in the second quarter of 1992.
- *Action Report*, a monthly newsletter.
- *Software*—An information-base software package that will allow research on GASB literature is being developed and will probably be available in 1992.

GASB publications and services can be obtained by calling the GASB Order Department at (203) 847-0700, extension 10.

### ***Single Audit Information Service***

The Single Audit Information Service is a loose-leaf reference service offered by the Thompson Publishing Group. It explains how to implement the single audit and provides an update of current events in the governmental audit community. The Single Audit Information Service can be ordered by calling the Thompson Publishing Group at (202) 872-1766.

### ***Federal Agencies—Administrative Regulations***

The various federal agencies issue general administrative regulations that apply to their programs. These regulations provide general rules on how to apply for grants and contracts, how grants are made, the general conditions that apply to grantees and contractors, their administrative responsibilities, and the compliance procedures used by the various agencies. These regulations are included in the Code of Federal Regulations.

In 1988 a revised OMB Circular A-102, *Grants and Cooperative Agreements With State and Local Governments*, was published, establishing a "common



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rule” designed to create consistency and uniformity among federal agencies in the administration of grants to and cooperative agreements with state, local, and federally recognized Indian tribal governments. The common rule has been codified in each federal agency’s portion of the Code of Federal Regulations.

It should also be noted that federal agencies have also codified OMB Circular A-128 in each agency’s portion of the Code of Federal Regulations. Although the OMB *Compliance Supplement for Single Audits of State and Local Governments* sets forth the compliance requirements for programs contributing a great majority of funding to state and local governments, federal agencies also develop specific compliance supplements for use in auditing programs not included in the OMB document. These can be obtained directly from the regional office of the appropriate federal agency.

Auditors should also be aware that many agencies have program-specific and other audit requirements that are not covered by Circular A-128. Such requirements may relate to certain programs (such as student financial assistance or HUD-insured mortgage programs), as well as contract audit requirements.

#### ***Federal Agencies—Audit Guides***

Federal agencies issue audit guides for various programs and activities. HUD has issued the following consolidated audit guide:

- *Consolidated Audit Guide for Audits of HUD Programs* (stock number 0-16-035988-0 IG 2000.4)

This prescribes HUD requirements for Independent Public Accountants (IPAs) who conduct audits of HUD-assisted programs for auditees other than those covered by OMB Circulars A-128 and A-133 and cancels the following four Handbooks:

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<u>No.</u>	<u>Title</u>
IG 4372.1	<i>Audit Guide for Mortgagors Having HUD-Insured or Secretary-Held Multifamily Mortgages</i>
IG 5500.3	<i>Audit Guide for Issuers of GNMA Mortgage-Backed Securities</i>
IG 4000.3 REV-2	<i>Audit Guide for HUD-Approved Nonsupervised Mortgages, Loan Correspondents, and Coinsuring Mortgages</i>
IG 4200.1A	<i>Audit Guide for Auditing Development Costs of HUD-Insured Multifamily Projects</i>

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The HUD guide is available from the Government Printing Office (GPO), Superintendent of Documents, Mail Stop: SSOP, Washington, DC 20402-9328.

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The U.S. Department of Education, Office of the Inspector General, has issued an audit guide, *Audits of Student Financial Assistance Programs* (March 1990). It is available from the Office of the Inspector General, U.S. Department of Education, Washington, DC, and from Offices of Regional Inspectors General for Audit.

### **General Accounting Office (GAO)**

GAO publications include the following:

- *Government Auditing Standards*—The standards relate to audits of government organizations, programs, activities, and functions and of government funds received by contractors, nonprofit organizations, and other nongovernmental organizations. The standards incorporate the AICPA Statements on Auditing Standards but prescribe additional standards needed to meet the more varied interests of users of reports on government audits. These standards are available from the GPO, Superintendent of Documents, Washington, DC 20401. The stock number is 020-000-00234-3.
- *Interpretation of Continuing Education and Training Requirements*—This provides guidance to audit organizations and individual auditors on implementing the CPE requirements of *Government Auditing Standards*. The stock number and publication date are 020-000-00250-6 and April 1991, respectively. This interpretation, and *Government Auditing Standards*, are available from the GPO, Superintendent of Documents, Mail Stop: SSOP, Washington, DC 20402-9328.
- “*Assessing Compliance With Applicable Laws and Regulations*”—This booklet, issued by the GAO Office of Policy, is intended to help the auditor implement requirements for detecting noncompliance. The number and publication date are GAO/OP-4.1.2 and December 1989, respectively.
- *Assessing the Reliability of Computer-Processed Data*—This guidebook is intended mainly for auditors and evaluators, not for experts in data processing. It provides some guidelines on what auditors must do to satisfy the standards of *Government Auditing Standards*. *Government Auditing Standards* requires auditors to satisfy themselves that computer-processed data are relevant and reliable. The number and publication date are GAO/OP-8.1.3 and September 1990, respectively.
- *Assessing Internal Controls in Performance Audits*—This guidebook relates specifically to performance audits. Nonetheless, it is also relevant to audits conducted under the Single Audit Act, which states that auditors must assess compliance with applicable laws and regulations. The number and publication date are GAO/OP-4.1.4 and September 1990, respectively.

- *“Guide to Federal Agencies’ Procurement of Audit Services from Independent Public Accountants”*—This booklet provides a basic understanding of how IPA contracts should be awarded to officials unfamiliar with federal procurements. It discusses the special requirements of the Chief Financial Officers (CFO) Act. The number and publication date are GAO/AFMD-12.19.3 and April 1991, respectively.
- *How to Get Action on Audit Recommendations*—This guide is intended to help auditors get more action and better results from their audit work on government programs and operations. The number and publication date are GAO/OP-9.2.1 and July 1991, respectively.
- *The Chief Financial Officers Act: A Mandate for Federal Financial Management Reform*—This booklet helps agency managers and other interested parties become familiar with the act and its implementation. The number and publication date are GAO/AFMD-12.19.4 and September 1991, respectively.

Requests for copies of these booklets should be sent to: U.S. General Accounting Office, P.O. Box 6015, Gaithersburg, MD 20877. The telephone number is (202) 275-6241.

#### ***Office of Management and Budget—Circulars***

The OMB—in consultation with grant-making agencies, the GAO, and representatives of grant recipients—developed a series of financial circulars that establish uniform policies and rules to be observed by all executive branch agencies of the federal government. Circulars and other documents relevant to audits of state and local governmental units are listed below. For copies of circulars and bulletins, call the Executive Office of the President, Publications Office, at (202) 395-7332; for compliance supplements and the *Catalog of Federal Domestic Assistance*, call the Government Printing Office at (202) 783-3238.

#### ***OMB Circulars Relevant to Audits of State and Local Governments***

<u>Circular Number</u>	<u>Applicability</u>	<u>Issue Date</u>
A-21 (Revised)	Cost principles for educational institutions	October 1991
A-50 (Revised)	Audit follow-up	September 1982
A-73 (Revised)	Audit of federal operations and programs	June 1983
A-87 (Revised)	Cost principles for state and local governments	January 1981

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<i>Circular Number</i>	<i>Applicability</i>	<i>Issue Date</i>
A-102 (Revised)	Grants and cooperative agreements with state and local governments	March 1988
A-122	Cost principles for non-profit organizations	June 1980
A-128	Audits of state and local governments (see also related question-and-answer document under "Office of Management and Budget—Other Guidance")	April 1985
A-133	Audits of institutions of higher education and other non-profit institutions	March 1990

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### *Office of Management and Budget—Other Guidance*

Other documents issued by the OMB that have accounting and auditing applications are listed below.

- OMB Bulletin No. 91-14, *Audit Requirements for Federal Financial Statements*, issued in September 1991, establishes initial requirements for audits of federal financial statements. It implements the audit provisions of the Chief Financial Officers Act of 1990 (P.L. 101-576).
- OMB Bulletin No. 91-15, *Guidance on Form and Content of Financial Statements on FY1991 Financial Activity*, also issued in September 1991, provides specific guidance for the preparation of financial statements of Executive departments and agencies for fiscal year 1991 and establishes minimum disclosure requirements for these statements.

Both bulletins were effective immediately.

- *Catalog of Federal Domestic Assistance*—The Catalog is a government-wide compendium of federal programs, projects, services, and activities that provide assistance or benefits to the American public. The General Services Administration (GSA) is responsible for the dissemination of federal domestic assistance information through the Catalog and maintains the information data base from which program information is obtained. The OMB serves as an intermediary between other federal agencies and the GSA, thus providing oversight relative to the collection of federal domestic assistance program data.

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Program information provided by the Catalog includes authorizing legislation and audit requirements. The GSA distributes copies to specified national, state, and local government offices. Catalog staff may be contacted at (202) 708-5126.

Program information is also available on machine-readable magnetic tape. The tape may be purchased by writing the Federal Domestic Assistance Catalog Staff, General Services Administration, Ground Floor, Reporters Building, 300 Seventh Street, S.W., Washington, DC 20407, or calling (202) 708-5126.

Other publications include the following:

- *Compliance Supplement for Single Audits of State and Local Governments*—This sets forth the major federal compliance requirements that should be considered in a single audit of state and local governments that receive federal assistance. It supplements OMB Circular A-128. The latest revision, which includes the three new general requirements, was issued in September 1990.
- *Questions and Answers on the Single Audit Provisions of OMB Circular A-128, Audits of State and Local Governments*—This document provides guidance relative to the single audit process through a series of questions and answers. The document is available from the Executive Office of the President, Publications Office, at (202) 395-7332.
- *Compliance Supplement for Audits of Institutions of Higher Learning and Other Non-Profit Institutions*—This supplements OMB Circular A-133, and sets forth the major compliance requirements that should be considered in an organization-wide audit of universities and other nonprofit institutions that receive federal assistance.

Information regarding the two Compliance Supplements may be obtained by contacting the OMB Financial Systems and Policy Branch at (202) 395-3993.

#### ***PCIE Subcommittee Guidance***

The PCIE Standards Subcommittee publishes supplemental, nonauthoritative guidance for federal officials dealing with issues arising from the implementation of the Single Audit Act; OMB Circular A-128, which implements the Act; and OMB Circular A-133, which extends the single audit concept to institutions of higher education and other nonprofit institutions.

The PCIE Standards Subcommittee has issued the following position statements:

- PCIE Statement No. 1 provides guidance on determining when a series of audits of individual federal departments, agencies, and

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establishments may be considered an audit for purposes of the Single Audit Act.

- PCIE Statement No. 2 provides guidance to cognizant agencies on determining whether an audit report that does not meet the 50 percent rule on internal control coverage prescribed in the AICPA Audit and Accounting Guide *Audits of State and Local Governmental Units* should be accepted.
- PCIE Statement No. 3 provides guidance on using a cyclical approach to internal control reviews of nonmajor programs.
- PCIE Statement No. 4 establishes uniform procedures for referrals of substandard audits to state boards of accountancy and the AICPA.
- PCIE Statement No. 5 provides guidance for certain not-for-profit entities other than institutions of higher education or hospitals not covered by OMB Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements With Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations*.
- PCIE Statement No. 6 provides clarifications and additional practical working guidance to Inspectors General and others participating in audits of not-for-profit organizations performed under OMB Circular A-133. It contains questions and answers on OMB Circular A-133 and was developed from questions frequently asked. It is expected to be issued in spring 1992.

These are available in one document (stock number PCIE-06-058). The PCIE has also issued the following:

- *Uniform Desk Review Guide of A-128 Single Audits* (stock number PCIE-06-057)
- *Uniform Quality Control Review Guides for A-128 Single Audits* (stock number PCIE-06-058)
- *Program Audit Guide Survey* (stock number PCIE-06-064)

Copies of PCIE publications may be obtained by writing the Treasury Office of the Inspector General, Room 7210, ICC Building, 1201 Constitution Ave., N.W., Washington, DC 20220.

#### ***Government Finance Officers Association (GFOA)***

The GFOA's address and telephone number are: 180 N. Michigan Avenue, Suite 800, Chicago, IL 60601-7476; (312) 977-9700. Its publications include the following:

- *Governmental Accounting, Auditing, and Financial Reporting (GAAFR)*—The GAAFR provides nonauthoritative guidance, and includes

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implementation guidance, on the practical application of GAAP for governments. The GAAFR also includes implementation guidance on the many pronouncements of the GASB, detailed journal entries and explanations that cover a multitude of common and complex transactions, a complete sample comprehensive annual financial report, discussion and illustration of single audit requirements, a glossary and chart of accounts, and a detailed index. (The *GAAFR Study Guide* is also available.)

- *Audit Management Handbook*—This handbook on audit management is intended for state and local governments and CPA firms that are involved in obtaining or performing financial audits. It provides information on all aspects of the audit management process, including establishing the scope of the audit, procuring the audit (including model requests for proposal), monitoring the audit, and resolving audit issues and findings.
- *Financial Reporting Series*—This set of books contains information and examples of how governments present specific financial reporting information. It includes—
  1. *Illustrations of Notes to the Financial Statements of State and Local Governments* (1983).
  2. *Illustrations of Introductory Sections of Comprehensive Annual Financial Reports of State and Local Governments* (1984).
  3. *Illustrations of Statistical Sections of Comprehensive Annual Financial Reports of State and Local Governments* (1985).
  4. *Illustrations of Supplementary Financial Data in Comprehensive Annual Financial Reports of State and Local Governments* (1985).
  5. *Illustrations of Interim Financial Statements of State and Local Governments* (1985).
  6. *How to Understand Local Government Financial Statements: A User's Guide* (1986).
  7. *Illustrations of Combined, Combining, and Individual Fund and Account Group Financial Statements of State and Local Governments* (1986).
  8. *Suggested Solutions to Governmental Accounting and Financial Reporting Practice Problems in Applying Authoritative Standards* (1987).
  9. *Illustrations of Popular Reports of State and Local Governments* (1988).
  10. *A Public Manager's Guide to Government Accounting and Financial Reporting* (1989).

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This Audit Risk alert supersedes *State and Local Governmental Developments—1991*.

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Auditors should also be aware of the economic, regulatory, and professional developments that may affect the audits they perform, as described in *Audit Risk Alert—1991* (No. 022087). *Audit Risk Alert—1991* was printed in the November 1991 issue of the *CPA Letter*. Additional copies can be obtained from the AICPA Order Department.

Copies of AICPA publications may be obtained by calling the AICPA Order Department at (800) 334-6961 (outside New York) or (800) 248-0445 (New York only).



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