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Checklists and illustrative financial statements for common interest realty associations: a financial accounting and reporting practice aid, June 1992 edition

American Institute of Certified Public Accountants. Technical Information Division

Gail Kahaner Polin

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June 1992 Edition

**Checklists and Illustrative
Financial Statements for
Common Interest Realty
Associations**

**A FINANCIAL ACCOUNTING AND
REPORTING PRACTICE AID**

AICPA

American Institute of Certified Public Accountants

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June 1992 Edition

Checklists and Illustrative Financial Statements for Common Interest Realty Associations

**A FINANCIAL ACCOUNTING AND
REPORTING PRACTICE AID**

Edited by

**Gail Kahaner Polin, CPA
Technical Manager
Technical Information Division**

Checklists and Illustrative Financial Statements for Common Interest Realty Associations has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board and has no official or authoritative status.

American Institute of Certified Public Accountants

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CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR COMMON INTEREST REALTY ASSOCIATIONS

These checklists and illustrative financial statements are designed to be applied to the financial statements of Common Interest Realty Associations.

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. Readers should be aware 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 SAS No. 70, SSARS No. 6, FASB Statement of Financial Accounting Standards No. 109, FASB Interpretation No. 39, and FASB Technical Bulletin No. 90-1. The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also 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, generally accepted auditing standards, and statements on standards for accounting and review services.
- 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 disclosure indicated is required or suggested, and to what extent the disclosure is relevant to the statements being audited.

Users of these checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline.

Susan Menelaides
Director
Technical Information Division

**CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR COMMON
INTEREST REALTY ASSOCIATIONS**

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INTRODUCTION

In the 1960's new forms of real estate ownership emerged and the terms to describe them, such as condominiums, cooperatives, planned unit development (PUD) and timeshare development, became common. A key feature of these forms of ownership is the existence of an association of owners referred to as a common interest realty association (CIRA).

Condominium: Each owner has title to a defined interior space within a building and an undivided ownership interest in *common property* within a development, such as the grounds and recreational facilities. A *condominium association* generally owns no real property, but it is responsible for maintaining the common property and providing necessary services. In certain jurisdictions, condominiums may be established as condominium trusts; such entities may own the real estate and all the improvements. If they do, the accounting and reporting for condominium trusts are the same as for cooperatives.

Planned Unit Development (PUD): A form of land development in which various structures are clustered for optimal use of the property. A PUD owner buys a lot and improvements on the lot. The title to common property is held by a CIRA, generally a Homeowners' Association (HOA).

Cooperative: A form of ownership in which a corporation owns the common property, including all of the improvements, and is responsible for its maintenance, debt service, repairs, and so forth. The owners do not own any of the common property, but they own shares of stock of the corporation. The corporation functions in the same way as other CIRAs in maintaining common property and providing services.

Timeshare Development: A form of ownership in which each owner has a time-share interest, commonly referred to as *interval use*, that represents a right to use a unit in a time-share development for a specified number of weeks during a year. These types of entities may also be referred to as *fractional ownership associations*.

Regardless of the form of ownership of a CIRA, a CIRA member has a defined ownership interest that can be transferred to buyers of their units or shares. Additionally, the CIRA member is entitled to share in the distribution of resources in the event of a liquidation. Membership in a CIRA is generally mandatory for owners and is a condition in the agreement to purchase either a unit in a condominium or shares in a cooperative.

OPERATING STATUTES

The operations of a CIRA are regulated by the individual states and not by the federal government. A CIRA derives authority for all

matters from state corporate and not-for-profit statutes, declarations of covenants, master deeds, membership agreements, articles of incorporation, bylaws and board of directors' actions. Federal regulations, however, apply to the income tax treatment of a CIRA.

PRIMARY ACCOUNTING METHODS

CIRAs should report financial activities using the accrual basis of accounting. Alternatively, the cash basis of accounting may be used if the results of applying that basis do not differ significantly from the results of using the accrual basis.

Fund reporting, commonly used by not-for-profit organizations, is recommended for condominium associations and homeowners' associations. The financial statements of a cooperative are generally presented like those of commercial entities. However, a cooperative may present financial statements using fund reporting.

CIRAs can generally present unclassified balance sheets. However, CIRAs having significant commercial operations, such as rental operations, should consider presenting classified balance sheets.

STRUCTURE OF THE CHECKLIST

Because most CIRAs use fund accounting, this checklist presents the fund accounting guidance first. Any modifications needed to reflect non-fund accounting are presented in italicized text and brackets immediately after the related funding accounting guidance.

Checklists--General

Many auditors and accountants find it helpful to use checklists as practice aids in preparing 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, that may vary.

Checklists typically consist of a number of brief questions or statements that are accompanied by references to Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements of Financial Accounting Standards, Accounting Principles Board Opinions, and Accounting Research Bulletins. Some checklists also include references to FASB Interpretations and to selected SEC disclosure requirements. 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.

Checklists usually provide for checking off or initialling each question or point to show that it has been considered. The format used in this checklist is typical; 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.

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 should 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.

Financial Statements and Notes Checklist

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:

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 ¹
AC	=	Reference to section number in <u>FASB Accounting Standards Current Text</u>
AU	=	Reference to section number in <u>AICPA Professional Standards</u> (vol. 1) of SAS cited
CIRA	=	AICPA Audit and Accounting Guide, <u>Audits of Common Interest Realty Associations</u>

This checklist is organized into the following classifications:

- General
 - A. Titles and References
 - B. Disclosure of Accounting Policies
 - C. Organization
 - D. Future Major Repairs and Replacements
 - E. Accounting Changes
 - F. Comparative Financial Statements
 - G. Related-Party Transactions and Economic Dependency
 - H. Financial Instruments
 - I. Nonmonetary Transactions
 - J. Contingencies and Commitments
 - K. Subsequent Events
 - L. Required Supplementary Information

- Balance Sheet
 - A. General
 - B. Cash
 - C. Marketable Securities
 - D. Receivables
 - E. Common Property

¹The 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.

- F. Depreciable Assets
- G. Lessors
- H. Current Liabilities
- I. Notes Payable and Other Debt
- J. Fund Balance
- K. Shareholders' Equity

- Statement of Revenues and Expenses [*Statement of Operations*]
- Statement of Changes in Fund Balances [*Statement of Changes in Shareholders' Equity*]
- Statement of Cash Flows
 - A. Format
 - B. Content

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
General			
A. Titles and References			
1. For a full presentation in conformity with generally accepted accounting principles, are the following financial statements presented:			
a. Balance sheet?	—	—	—
b. Statement of revenues and expenses [<i>statement of operations</i>]?	—	—	—
c. Statement of changes in fund balances [<i>statement of changes in shareholders' equity</i>]?	—	—	—
<p><u>NOTE: FOR HOMEOWNERS' ASSOCIATIONS AND CONDOMINIUM ASSOCIATIONS NOT USING FUND ACCOUNTING, THE TERM "FUND BALANCE" SHOULD BE REPLACED WITH "MEMBERS' EQUITY."</u></p> <p>[CIRA, 4.02 footnote 6]</p>			
d. Statement of cash flows?	—	—	—
e. Notes to financial statements? [CIRA, 4.05, 9.09]	—	—	—
2. Are the financial statements suitably titled? [SAS 62, par. 7 (AU 623.07)]	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
3. Does each statement include a general reference to the notes indicating they are an integral part of the financial statement presentation? [FASB Statement of Concepts No. 1, par. 18]	---	---	---
4. Are the notes referenced to and from the applicable statement classification or appropriately captioned? [FASB Statement of Concepts No. 1, par. 18]	---	---	---
B. Disclosure of Accounting Policies			
1. Is a description of all significant accounting policies of the CIRA presented as an integral part of the financial statements? [APB 22, par. 8 (AC A10.102)]	---	---	---
2. Does disclosure of significant accounting policies encompass important judgments as to appropriateness of principles concerning recognition of revenue, and allocation of asset costs to current and future periods? [APB 22, par. 12 (AC A10.105); TB 82-1, par. 4 (AC I28.510)]	---	---	---
3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)]	---	---	---
C. Organization			
1. Does disclosure include information about:			
a. The CIRA's legal form (corporation or association)?	---	---	---
b. The legal form of the entity for which the CIRA provides services (i.e., condominium, cooperative, etc.)?	---	---	---
c. Services provided by the developer (i.e., maintenance or subsidies)? [CIRA, 4.22]	---	---	---

YES NO N/A

D. Future Major Repairs and Replacements

1. Do the CIRA's financial statements include the following disclosures about future major repairs and replacements:
- a. Requirements in statutes or association documents to accumulate funds for major repairs and replacements? _____
 - b. The CIRA's compliance, or lack of, with the requirements? _____
 - c. A description of the CIRA's funding policy, if any, and compliance with that policy? _____
 - d. A statement that funds, if any, are being accumulated based on estimated future (or current) costs, that actual expenditures may vary from these estimates, and that the variations may be material? _____
 - e. Amounts assessed for major repairs and replacements in the current period? _____
 - f. A statement indicating whether a study was conducted to estimate the remaining useful lives and the costs of future major repairs and replacements?
[CIRA, 4.26] _____

E. Accounting Changes

1. For an accounting change, does disclosure in the period of the change include:
- a. Nature of the change? _____
 - b. Justification for the change, including an explanation of why the newly adopted principle is preferable? _____
 - c. Effect on income?
[APB 20, par. 17 (AC A06.113)] _____

YES NO N/A

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 justifying a change in accounting principle?
[SFAS 32, pars. 10-11 (AC A06.112); APB 20, par. 16 (AC A06.112); SFAS 83, pars. 5-6 (AC A06.112)]
3. For all changes in accounting principle, except those concerning a change in entity:
- a. Are prior-period financial statements, included for comparative purposes, presented as previously reported?
- b. Is the effect of the new accounting principle on the excess of revenues over expenses [*income*] before extraordinary items and on the net excess of revenues over expenses [*net income*] disclosed in the period of the change?
- c. Is the excess of revenues over expenses [*income*] before extraordinary items and the net excess of revenues over expenses [*net income*] computed on a pro forma basis shown on the face of the statement of revenues and expenses for all periods presented as if the newly adopted accounting principle had been applied during all periods affected?
[APB 20, pars. 19, 21 and 25 (AC A06.115d, .117 and .121)]
4. If appropriate, is the cumulative effect of a change in accounting principle shown separately between the captions "extraordinary items" and "net excess of revenues over expenses" [*net income*]?
[APB 20, pars. 18-26 (AC A06.114-.122 and E09.104)]
5. Is the correction of an error shown as a prior-period adjustment with disclosure of the following in the period of its discovery and correction:
- a. Nature of the error in previously issued financial statements?

YES NO N/A

b. Effect of its correction on the excess of revenues [*income*] over expenses before extraordinary items and the net excess of revenues over expenses [*net income and related per share amounts*]? _____
[APB 20, pars. 36-37 (AC A35.105); SFAS 16, par. 11 (AC A35.103)]

F. Comparative Financial Statements

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. 3 (AC F43.103)]

4. Is the information included for the prior period sufficient to constitute a fair presentation in conformity with GAAP? _____
[CIRA, 4.19]

G. Related-Party Transactions and Economic Dependency

Some individual board members, officers, or developers may provide the CIRA with insurance, maintenance, and management services. Such services and any other transactions with related parties may require disclosure.

1. For related-party transactions, do disclosures include: _____
a. The nature of the relationship(s) involved (e.g., parent, subsidiary and affiliate companies, board members, officers, stockholders, developers, etc.)? _____

YES NO N/A

- b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which statements of revenues and expenses [*statements of operations*] are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements? _____
- c. The dollar amounts of transactions for each of the periods for which statements of revenues and expenses [*statements of operations*] are presented and the effects of any change in the method of establishing the terms from those 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)] _____
2. If 10 percent or more of the CIRA's revenues is derived from any one source, has:
- a. That fact been disclosed? _____
- b. The amount of revenue from each source been disclosed?
[CIRA, 4.24] _____
3. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the CIRA and one or more other enterprises are under common ownership or management control, and the existence of the control could result in operating results or financial position of the CIRA being significantly different from those that would have resulted if the CIRA were autonomous?
[SFAS 57, pars. 2 and 4 (AC R36.102 and .104)] _____

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
4. Are the nature and extent of leasing transactions with related parties appropriately disclosed? [SFAS 13, par. 29 (AC L10.125)]	---	---	---
H. Financial Instruments			
1. Does the CIRA have a financial instrument that is:			
a. Cash in banks or on hand?	---	---	---
b. Evidence of an ownership interest in an entity?	---	---	---
c. A contract that both:			
(1) Imposes on one entity a contractual obligation (liability):			
(i) To deliver cash or a financial instrument to a second entity?	---	---	---
or			
(ii) To exchange financial instruments on potentially unfavorable terms with the second entity?	---	---	---
(2) Conveys to that second entity a contractual right:			
(i) To receive cash or another financial instrument from the first entity?	---	---	---
or			
(ii) To exchange other financial instruments on potentially favorable terms with the first entity?	---	---	---
[SFAS 105, par. 6 (AC F25.106)]			
I. Nonmonetary Transactions			
1. Are nonmonetary transactions accounted for in conformity with APB No. 29?	---	---	---

YES NO N/A

[APB 29, pars. 18-27 (AC C11.101 and N35.105-.113)]

2. 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)]

J. Contingencies and Commitments

1. Are the nature and amount of accrued loss contingencies disclosed as necessary to keep the financial statements from being misleading? _____

[SFAS 5, par. 9 (AC C59.108)]

2. For loss contingencies not accrued, do disclosures indicate:

a. Nature of the 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 .111)]

3. If exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures include the excess amount or state that no estimate is possible? _____

[SFAS 5, par. 10 (AC C59.109)]

4. Are the nature and amount of guarantees disclosed (for example, of indebtedness of others and of guarantees to repurchase receivables that have been sold or otherwise assigned)? _____

[SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1-3 (AC C59.114)]

5. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization? _____

YES NO N/A

[SFAS 5, par. 17 (AC C59.118)]

6. Is there adequate disclosure of commitments such as those for capital expenditures, restrictive covenants in financing agreements, and employment contracts? _____
- [SFAS 5, pars. 18-19 (AC C59.120)]

K. Subsequent Events

1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provided additional evidence about conditions that existed at the balance sheet date? _____
- [SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03-.04, .07 and 561.01-.09 (AU 560.03-.04, .07 and 561.01-.09)]

2. Are subsequent events that provide evidence as to conditions that did not exist at the balance sheet date but arose after 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) and SAS 1, secs. 560.05-.07, .09 and 561.01-.09 (AU 560.05-.07, .09 and 561.01-.09)]

L. Required Supplementary Information

1. Has the CIRA disclosed the following unaudited supplementary information?
- a. For estimates of current or future costs of future major repairs and replacements of existing components:
- (1) Estimated amounts required? _____
- (2) Methods used to determine the costs? _____
- (3) Basis for calculation? _____
- (4) Assumptions used for interest and inflation rates? _____
- (5) Sources used, and the dates of studies, if any? _____

YES NO N/A

b. For components to be repaired or replaced:

(1) Estimates of the remaining useful lives of the components?

___ ___ ___

(2) Estimates of current or future replacement cost?

___ ___ ___

(3) Amounts of funds accumulated for each component as designated by the members of the board?

___ ___ ___

[CIRA, 4.30]

YES NO N/A

Balance Sheet

A. General

1. For classified balance sheets, are assets and liabilities segregated into current and noncurrent classifications with totals presented for current assets and current liabilities? _____
[ARB 43, Ch. 3A (AC B05.103-.109); SFAS 6, par. 15 (AC B05.118); FASBI 8, par. 3 (AC B05.138-.139); TB 79-3 (AC B05.501-.503); CIRA, 4.10]
2. Are valuation allowances contra to such assets as receivables and investments shown as deductions from their related assets with appropriate disclosure? _____
[APB 12, par. 3 (AC V18.102)]

IF NONFUND ACCOUNTING IS USED, OMIT QUESTIONS #3, #4 AND #5

3. Does the operating fund present assets, liabilities and the fund balance specifically associated with the CIRA's normal maintenance and service activities (e.g., cash, assessments receivable, prepaid expenses and trade payables)? _____
[CIRA, 4.06]
4. Have total amounts of all fund groups been presented? _____
[CIRA, 4.01]
5. Does the replacement fund include information about assets, liabilities, and the fund balance specifically associated with the CIRA's long-term major repair and replacement activities? _____
[CIRA, 4.07]

B. Cash

1. Is restricted cash appropriately segregated from cash available for current operations? _____
[ARB 43, Ch. 3A, par. 6 (AC B05.107)]
2. Are restrictions on cash appropriately disclosed? _____
[SFAS 5, pars. 18-19 (AC C59.120)]

YES NO N/A

[CIRA, 4.07, 9.16]

C. Marketable Securities

- | | | | |
|--|-----|-----|-----|
| 1. Are the carrying amounts of the marketable equity securities portfolios (current and noncurrent) each reported at the lower of aggregate cost or market?
[SFAS 12, pars. 8 and 15 (AC I89.102 and .109)] | ___ | ___ | ___ |
| 2. Is the amount by which aggregate cost exceeds aggregate market value of a portfolio accounted for as a valuation allowance?
[SFAS 12, par. 8 (AC I89.102); FASBI 12; FASBI 13 (AC I89.120-.122)] | ___ | ___ | ___ |
| 3. Are changes in the valuation allowances appropriately accounted for?
[SFAS 12, par. 11 (AC I89.105)] | ___ | ___ | ___ |
| 4. Are realized gains and losses included in net excess of revenues over expenses [<i>net income</i>] of the period in which they occur?
[SFAS 12, par. 11 (AC I89.105)] | ___ | ___ | ___ |
| 5. If particular marketable securities for which changes in carrying amounts are included in fund balance [<i>shareholders' equity</i>], and for which the market value has declined below cost and the declines are "judged to be other than temporary," has the cost basis been written down and the writedown accounted for as a loss?
[SFAS 12, par. 21 (AC I89.115); FASBI 11 (AC I89.115-.116)] | ___ | ___ | ___ |
| 6. Are income tax effects for unrealized gains or losses on marketable securities recognized in conformity with SFAS 109?
[SFAS 109] | ___ | ___ | ___ |
| 7. For marketable equity securities, do disclosures include: | | | |
| a. For each balance sheet presented, aggregate cost and market value (each segregated between current and non-current portfolios when a classified balance sheet is presented) with | | | |

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
<p>identification of which is the carrying amount? [SFAS 12, par. 12a (AC I89.106a)]</p>	—	—	—
<p>b. For the latest balance sheet presented, gross unrealized gains and gross unrealized losses (each segregated between current and noncurrent portfolios when applicable)? [SFAS 12, pars. 12b and 16a (AC I89.106b and .110a)]</p>	—	—	—
<p>c. The following information for each period for which a statement of revenues and expenses [statement of operations] is presented:</p>			
<p>(1) Net realized gain or loss included in determination of net excess of revenues and expenses [net income]?</p>	—	—	—
<p>(2) Basis on which cost was determined in computing realized gain or loss (e.g., average cost, FIFO)?</p>	—	—	—
<p>(3) The change in valuation allowance(s) included in the fund balance section of the balance sheet during the period and, when a classified balance sheet is presented, the amount of such change included in determination of net excess of revenues over expenses [net income]?</p> <p>[SFAS 12, par. 12c (AC I89.106c)]</p>	—	—	—
<p>8. Are significant net realized and net unrealized gains and losses that arose after the latest balance sheet date but before issuance of the financial statements disclosed? [SFAS 12, pars. 13 and 17 (AC I89.107 and .111); FASBI 11 (AC I89.115-.116); FASBI 13 (AC I89.120-.122)]</p>	—	—	—
<p>9. Are valuation allowances shown as deductions from their related portfolios with appropriate disclosure? [APB 12, par. 3 (AC V18.102)]</p>	—	—	—

YES NO N/A

D. Receivables

- | | | | |
|---|-------|-------|-------|
| 1. Are accounts and notes receivable from the developer, officers, directors, employees, and affiliated companies shown separately with appropriate disclosures?
[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? | _____ | _____ | _____ |
| b. Does the disclosure include the effective interest rate and face amount of the note? | _____ | _____ | _____ |
| c. Is amortization of discount or premium reported as interest in the statement of revenues and expenses [<i>statement of operations</i>]?
[APB 21, par. 16 (AC I69.109)] | _____ | _____ | _____ |
| 3. Is the unamortized balance of loan origination, commitment, and other fees and costs and purchase premiums and discounts that are being recognized as an adjustment of yield reported as part of the loan balance to which they relate?
[SFAS 91, par. 21 (AC L20.120)] | _____ | _____ | _____ |
| 4. Are allowances for uncollectible receivables shown as deductions from the related receivables?
[APB 12, par. 3 (AC V18.102)] | _____ | _____ | _____ |
| 5. For transfers of receivables with recourse that are reported as sales, are the following disclosed: | | | |
| a. The proceeds to the transferors during each period for which a statement of revenues and expenses [<i>statement of operations</i>] is presented? | _____ | _____ | _____ |
| b. The balance of the receivables transferred that remains uncollected at the date of each balance sheet presented, if such information is available? | _____ | _____ | _____ |

YES NO N/A

[SFAS 77, par. 9 (AC R20.109)]

IF NONFUND ACCOUNTING IS USED, OMIT QUESTION #6

6. Are interfund receivables separately disclosed? [CIRA, 4.08]	____	____	____
 E. Common Property			
1. Has common personal property, such as furnishings, recreational equipment, maintenance equipment, and work vehicles, that are used in operating, preserving, maintaining, repairing, and replacing common property and providing other services, been recorded as assets? [CIRA, 2.11]	____	____	____
a. Was the common property recorded at the cost to the CIRA in a monetary transaction?	____	____	____
b. If the common property was acquired in a nonmonetary transaction, excluding transfers between entities under common control, was it recorded at the fair value at its acquisition date? [CIRA, 2.12]	____	____	____
2. Do the financial statements or notes thereto include disclosure of:			
a. Accounting policy for recognition and measurement of common property?	____	____	____
b. Description of common property reported as an asset on the CIRA's balance sheet?	____	____	____
c. A description of common property to which the CIRA has title (or other evidence of ownership) that is not reported as an asset on the CIRA's balance sheet?	____	____	____
d. The CIRA's responsibility to preserve and maintain common property?	____	____	____
e. Terms and conditions of existing land or recreation leases?	____	____	____

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
f. Restrictions on the use or disposition of common property? [CIRA, 2.13, 9.16]	—	—	—
g. Common areas controlled by the CIRA?	—	—	—
h. The number of units [<i>shares for cooperative housing associations or weeks for time-share associations</i>] controlled by the developer?	—	—	—
i. The number of units [<i>shares</i>] owned by the developer? [CIRA, 4.22, 9.16]	—	—	—
F. Depreciable Assets			
1. Have property and equipment recognized as assets been depreciated based on their estimated useful lives?	—	—	—
2. For depreciable assets, do the financial statements or notes thereto include disclosure of:			
a. Depreciation expense for each period?	—	—	—
b. Balances of major classes of depreciable assets by nature or function?	—	—	—
c. Accumulated depreciation, either by major classes of assets or in total?	—	—	—
d. The method or methods used in computing depreciation with respect to major classes of depreciable assets? [APB 12, par. 5 (AC D40.105); APB 22, par. 13 (AC A10.106); CIRA, 2.14]	—	—	—
<u>IF NONFUND ACCOUNTING IS USED, OMIT QUESTION #3</u>			
3. Has depreciation expense been reported in the fund in which the asset is presented? [CIRA, 4.13]	—	—	—
4. Are capitalized interest costs appropriately determined and reported? [SFAS 34, pars. 6-23 (AC I67.102-.103, .105-.107 and .109-.118) as amended by SFAS 42, par. 4 (AC I67.104); SFAS 58, pars. 5-7]	—	—	—

YES NO N/A

(AC I67.105c, .106c-.106e and .117); SFAS 62, par. 5 (AC I67.106)]

G. Lessors

1. 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 excess revenues over expenses for each period for which a statement of revenues and expenses [statement of operations] is presented?
[SFAS 13, par. 23b (AC L10.119b)]

___ ___ ___

2. 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, 26, 27, 28 and 29; for interpretations see FASBIs 19, 21, 23, 24, 26 and 27; for Technical Bulletins see TBs 79-10, 79-11, 79-13, 79-14, 79-15, 79-16, 79-17, 79-18 and 88-1]

H. Current Liabilities

1. Do current liabilities include:

a. Obligations for items that have entered the operating cycle?

___ ___ ___

b. Collections received in advance of the delivery of goods or performance of services?

___ ___ ___

c. Debts that arise from operations directly related to the operating cycle?

___ ___ ___

YES NO N/A

d. Other liabilities whose regular and ordinary liquidation is expected to occur within a relatively short time period?

___ ___ ___

e. Obligations that, by their terms, are due on demand or will be due within one year (or operating cycle, if longer) from the balance sheet date, even though liquidation may not be expected within that period?

___ ___ ___

[ARB 43, Ch. 3A, pars. 7-8 (AC B05.108-.109); SFAS 78, par. 5 (AC B05.109A and .118)]

2. Do current liabilities exclude short-term obligations that the CIRA intends to refinance on a long-term basis, provided the CIRA 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 .138-.139)]

I. Notes Payable and Other Debt

1. Is there adequate disclosure of interest rates, maturities, and other terms and conditions provided in loan agreements and bond indentures, such as assets pledged as collateral, and covenants to reduce debt and maintain working capital?

___ ___ ___

[APB Statement 4, par. 199, R-9A; SFAS 5, pars. 18-19 (AC C59.120)]

2. Are the combined aggregate amount of maturities and sinking fund requirements for all long-term borrowings disclosed for each of the five years following the date of the latest balance sheet presented?

___ ___ ___

[SFAS 47, par. 10b (AC C32.105b)]

3. If the 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?

___ ___ ___

b. Does the disclosure include the effective interest rate and face amount of the note?

___ ___ ___

- | | <u>YES</u> | <u>NO</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| c. Is amortization of the discount or premium reported as interest in the statement of revenues and expenses [<i>statement of operations</i>]? | --- | --- | --- |
| d. Are issue costs reported in the balance sheet as deferred charges?
[APB 21, par. 16 (AC I69.109)] | --- | --- | --- |
| 4. Are current portions of debt obligations presented as current liabilities in a classified balance sheet?
[ARB 43, Ch. 3A, pars. 7-8 (AC B05.108-.109)] | --- | --- | --- |
| 5. If a short-term obligation is to be excluded from current liabilities in a classified balance sheet, do disclosures include: | | | |
| a. General description of the financing agreement? | --- | --- | --- |
| b. Terms of any new obligation incurred or expected to be incurred, or equity securities issued or expected to be issued 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)] | --- | --- | --- |
| 6. Are estimated losses from loss contingencies accrued if both "probable" as explained in SFAS 5 and the amount can be reasonably estimated?
[SFAS 5, par. 8 (AC C59.105); FASBI 14 (AC C59.106-.107 and .124-.127)] | --- | --- | --- |

IF NONFUND ACCOUNTING IS USED, OMIT SECTION J - FUND BALANCE

J. Fund Balance

- | | | | |
|---|-----|-----|-----|
| 1. Have any differences between the assets and liabilities of each fund group been presented as the fund balance of the respective group?
[CIRA, 4.11] | --- | --- | --- |
|---|-----|-----|-----|

YES NO N/A

IF FUND ACCOUNTING IS USED, OMIT SECTION K - SHAREHOLDERS' EQUITY

K. Shareholders' Equity

- | | | | |
|---|-----|-----|-----|
| 1. For each class of stock, do disclosures include the number of shares authorized, issued and outstanding, and par or stated value per share?
[APB Statement 4, par. 199, R-9A] | ___ | ___ | ___ |
| 2. Do the financial statements include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding, for example: dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices or rates and pertinent dates, sinking fund requirements, unusual voting rights?
[APB 15, par. 19 (AC E09.110)] | ___ | ___ | ___ |
| 3. Are liquidation preferences of preferred stock issues prominently disclosed in the equity section of the balance sheet in the aggregate?
[APB 10, par. 10 (AC C16.101)] | ___ | ___ | ___ |
| 4. For preferred stock do disclosures include: | | | |
| a. Aggregate or per share amounts at which shares may be called or are subject to redemption?
[APB 10, par. 11 (AC C16.101)] | ___ | ___ | ___ |
| b. Aggregate and per share amounts of arrearages in cumulative preferred dividends?
[APB 15, par. 50, footnote 16 (AC C16.102)] | ___ | ___ | ___ |
| 5. For stock option and stock purchase plans, do disclosures include: | | | |
| a. Number of shares under option? | ___ | ___ | ___ |
| b. Option price? | ___ | ___ | ___ |

- | | <u>YES</u> | <u>NO</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| c. Number of shares as to which options are exercisable? | --- | --- | --- |
| d. For shares exercised, the number exercised and option price?
[ARB 43, Ch. 13B, par. 15 (AC C47 .123); APB 25, par. 19; FASBI 28 (AC C47.119-.122 and .138-.146); TB 82-2, pars. 10-12 (AC C47.513-.515); FASBI 38 (AC C47.135A-.135E)] | --- | --- | --- |
| 6. Are any appropriations of retained earnings for loss contingencies clearly identified and included in shareholders' equity?
[SFAS 5, par. 15 (AC R70.103)] | --- | --- | --- |
| 7. Are restrictions on payment of dividends disclosed?
[SFAS 5, pars. 18-19 (AC C59.120)] | --- | --- | --- |
| 8. Are stock subscriptions receivable appropriately identified and presented as a deduction from capital, or, if presented as an asset, stated separately, clearly labeled, and their status clearly described to distinguish them from any other type of assets? | --- | --- | --- |
| 9. Are the amounts of redemption requirements for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or determinable dates disclosed for each of the five years following the date of the latest balance sheet presentation?
[SFAS 47, par. 10c (AC C32.105c)] | --- | --- | --- |

Statement of Revenue and Expenses [*Statement of Operations*]

IF NONFUND ACCOUNTING IS USED, OMIT QUESTIONS #1 and #2

- | | | | |
|--|-----|-----|-----|
| 1. Are all CIRA activities, except for replacement fund activities, presented in the operating fund? | --- | --- | --- |
|--|-----|-----|-----|

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
2. If there have been periodic assessments for funding future major repairs and replacements, have they been reported in the replacement fund in the periods in which they were assessed, regardless of whether they were collected or expended? [CIRA, 3.08, 4.13]	___	___	___
3. Have revenues been shown separately for:			
a. Regular assessments from members?	___	___	___
b. Special assessments from members?	___	___	___
c. Assessments and subsidies charged to the developer?	___	___	___
d. Contributions?	___	___	___
e. Lawsuit settlements?	___	___	___
f. Interest income?	___	___	___
g. Laundry and vending machine income?	___	___	___
h. Special-use charges from members and non-members? [CIRA, 4.14, 9.13]	___	___	___
4. Are there special assessments?	___	___	___
a. Are the assessments earmarked for a specific expenditure?	___	___	___
b. Has the specific expenditure been made?	___	___	___
(1) If not, has the assessment been reported as deferred revenue? [CIRA, 4.12, .15, 9.13]	___	___	___
5. For special assessments, do the financial statements or notes thereto include disclosure of:			
a. The proposed use for funds collected in special assessments?	___	___	___
b. Assessments that were used for purposes other than those for which they were designated? [CIRA, 4.22, 9.16]	___	___	___

YES NO N/A

IF NONFUND REPORTING IS USED, OMIT QUESTION #6

- | | | | | |
|----|---|-----|-----|-----|
| 6. | Has interest earned been presented as revenue of the appropriate fund?
[CIRA, 4.14] | ___ | ___ | ___ |
| 7. | For marketable equity securities, are the following disclosed for each period for which a statement of revenues and expenses [<i>statement of operations</i>] is presented: | | | |
| a. | Net realized gain or loss included in determination of excess of revenues over expenses [<i>income</i>]?
[SFAS 12, par 12c (AC I89.106c)] | ___ | ___ | ___ |
| b. | The change in net unrealized gain or loss?
[SFAS 12, par 16b (AC I89.110b)] | ___ | ___ | ___ |
| c. | Basis on which cost was determined in computing realized gain or loss?
[SFAS 12, par. 12c (AC I89.106c)] | ___ | ___ | ___ |
| 8. | For investment in common stock accounted for by the equity method: | | | |
| a. | Are intercompany profits and losses appropriately eliminated until realized by the CIRA through transactions with independent third parties?
[APB 18, par. 19a (AC I82.109a)] | ___ | ___ | ___ |
| b. | Is the CIRA's share of earnings shown as a single amount except for investee extraordinary items and prior period adjustments that are material to the CIRA?
[APB 18, pars. 19c and 19d (AC I82.109c and .109d)] | ___ | ___ | ___ |
| c. | Are income taxes of the CIRA's share of the investee's earnings appropriately accrued?
[APB 24, pars. 7-10 (AC I42.114-.116 and .119); FASBI 29 (AC I42.117-.118)] | ___ | ___ | ___ |

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
9. Is the amount of interest cost incurred and any portion of interest cost that has been capitalized during the period(s) presented disclosed? [SFAS 34, par. 21 (AC I67.118)]	---	---	---
10. Has the CIRA disclosed its:			
a. Income tax filing status?	---	---	---
b. Liability for income taxes?	---	---	---
c. Credits from taxing authorities that will be phased out in future reporting periods?	---	---	---
d. Extraordinary items?	---	---	---
e. Cumulative effect of accounting changes?	---	---	---
f. Prior period adjustments?	---	---	---
g. Capital transactions? [SFAS 109, par. 46, CIRA 4.22, 9.16]	---	---	---
11. Extraordinary Items			
a. Do extraordinary items meet both criteria of (1) an unusual nature, and (2) infrequency of occurrence? [APB 30, pars. 19-24 (AC I17.106-.111 and .118)]	---	---	---
b. Are extraordinary items segregated (including applicable income taxes)? [APB 30, pars. 10-12 (AC I17.102-.103)]	---	---	---
c. Are descriptive captions and amounts (including applicable income taxes) presented for individual extraordinary events or transactions, preferably on the face of the statement of revenues and expenses [<i>statement of operations</i>] if practicable? [APB 30, par. 11 (AC I17.102)]	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
d. Do disclosures include descriptions of extraordinary events or transactions and the principal items entering into determination of extraordinary gains or losses? [APB 30, par. 11 (AC I17.102)]	---	---	---
e. Are material events or transactions that are either unusual in nature, or of infrequent occurrence but not both (and therefore not meeting criteria for extraordinary items):			
(1) Reported as a separate component of revenues and expenses [<i>income</i>] from continuing operations?	---	---	---
(2) Accompanied by disclosure of the nature and financial effects of each event? [APB 30, par. 26 (AC I22.101); TB 82-1, par. 6 (AC I28.512)]	---	---	---
12. For gains or losses from extinguishment of debt classified as extraordinary items, do disclosures include:			
a. Description of the extinguishment transactions, including the sources of any funds used to extinguish the debt if it is practicable to identify the sources?	---	---	---
b. Income tax effect in the period of extinguishment? [SFAS 4, pars. 8-10 (AC I17.104 and D14.105-.107)]	---	---	---
13. 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)]	---	---	---

YES NO N/A

IF FUND ACCOUNTING IS USED, OMIT QUESTION # 14

14. Has per-share information, if deemed useful, been considered for disclosure? [CIRA, 9.13] _____

Statement of Changes in Fund Balance [*Statement of Changes in Shareholders' Equity*]

NOTE: FOR HOMEOWNERS' ASSOCIATIONS AND CONDOMINIUM ASSOCIATIONS NOT USING FUND ACCOUNTING, THE TERM "FUND BALANCE" SHOULD BE REPLACED WITH "MEMBERS' EQUITY."

1. Has the statement of changes in fund balances [*shareholders' equity*] been presented? _____
2. Has beginning and ending fund balance [*shareholders' equity*] been reconciled with results of operations for each period presented? _____

IF NONFUND ACCOUNTING IS USED, OMIT QUESTION #3

3. Have permanent transfers been presented as interfund transfers? [CIRA, 4.11,.17] _____

IF FUND ACCOUNTING IS USED, OMIT QUESTIONS #4 AND #5

4. Are changes in the separate component accounts of shareholders' equity disclosed? _____
5. Are changes in the number of shares of equity securities disclosed? [APB 12, par. 10 (AC C08.102)] _____
6. Are changes in fund balance [*stockholders' equity*] disclosed? [APB 12, par. 10 (AC C08.102)] _____
7. Are prior period adjustments limited to:
- a. Correction of an error(s) in financial statements of prior periods? _____

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
b. Adjustments resulting from realization of income tax benefits of preacquisition operating loss carryforwards of purchased subsidiaries? [SFAS 16, par. 11 (AC A35.103)]	---	---	---
8. Are prior period adjustments and their resulting effects (both gross and net of applicable income taxes) appropriately disclosed?	---	---	---
9. For a correction of an error, are the following disclosed in the period in which the error was discovered and corrected:			
a. Nature of the error in previously issued financial statements?	---	---	---
b. Effect of its correction on income before extraordinary items, net income, and related per share amounts (if applicable)? [APB 20, par. 37 (AC A35.105)]	---	---	---
10. If an additional liability required to be recognized pursuant to SFAS 87, paragraph 36 [AC P16.130], exceeds unrecognized prior service cost, has the excess (that would represent a net loss not yet recognized as net periodic pension cost) been reported as a separate component (that is, a reduction) of equity, net of any tax benefits that result from considering such losses as timing differences for purposes of applying the provisions of APB 11? [SFAS 87, par. 37 (AC P16.131)]	---	---	---

Statement of Cash Flows

A. Format

- | | | | |
|--|-----|-----|-----|
| 1. Is a statement of cash flows presented as a basic financial statement for each period for which a balance sheet and a statement of revenues and expenses [<i>statement of operations</i>] is presented?
[SFAS 95, par. 3 (AC C25.101); CIRA, 4.18, 9.15] | --- | --- | --- |
|--|-----|-----|-----|

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
2. Is the policy for defining cash equivalents disclosed? [SFAS 95, par. 10 (AC C25.108)]	---	---	---
3. Are major classes of gross cash receipts and gross cash payments and their arithmetic sum [the net cash flow from operating activities (direct method)] presented in the statement? [SFAS 95, par. 27 (AC C25.125)]	---	---	---
4. If the direct method is used, has a reconciliation of the excess of revenues and expenses to net cash flow from operating activities been provided in a separate schedule? [SFAS 95, par. 30 (AC C25.128)]	---	---	---
5. If the indirect method is used:			
a. Has the same amount for net cash flow from operating activities been reported indirectly by adjusting the excess of revenues and expenses [<i>income</i>] to reconcile it to net cash flow from operating activities? [SFAS 95, par. 28 (AC C25.126)]	---	---	---
b. Has the reconciliation of the excess of revenues and expenses [<i>income</i>] to net cash flow from operating activities been reported either within the statement of cash flows or provided in a separate schedule, with the statement of cash flows reporting only the net cash flow from operating activities? [SFAS 95, par. 30 (AC C25.128)]	---	---	---
B. Content			
1. Are cash receipts and payments from investing activities shown separately on the statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	---	---	---
2. Are cash receipts and payments for the following transactions classified as cash flows from investing activities:			
a. Receipts from sales of property?	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
b. Additions to building, furniture and equipment?	—	—	—
c. Loans to members? [SFAS 95, pars. 16-17 (AC C25.114-.115)]	—	—	—
3. Are cash receipts and cash payments from financing activities shown separately on the statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	—	—	—
4. Are cash receipts and payments for the following transactions classified as cash flows from financing activities:			
a. Proceeds from issuing debt?	—	—	—
b. Repayments of amounts borrowed?	—	—	—
5. Are cash receipts and payments classified as cash flows from operating activities for:			
a. Member assessments collected?	—	—	—
b. Expenditures for major repairs and replacements?	—	—	—
c. Real estate taxes?	—	—	—
d. Interest income?	—	—	—
e. Interest expense?	—	—	—
f. Forfeited security deposits?	—	—	—
g. Payments to governments for taxes, duties, fines, and other fees or penalties?	—	—	—
h. Payments to settle lawsuits?	—	—	—
i. Contributions to charities? [SFAS 95, pars. 22-23 (AC C25.120-.121)]	—	—	—

Auditors' Reports Checklist

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:

- SAS = Statement on Auditing Standards
- AU = Reference to section number in AICPA Professional Standards (vol. 1) of SAS cited
- SSARS = Statement on Standards for Accounting and Review Services
- AR = Reference to section number in AICPA Professional Standards (vol. 2) of SSARS cited
- CIRA = AICPA Audit and Accounting Guide Audits of Common Interest Realty Associations

	<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)]	---	---	---
b. 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)]	---	---	---
2. 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)]	---	---	---
3. 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)]	---	---	---
4. Does the report include appropriate language in respect of the following:			
a. Report on only one basic financial statement and there are no scope limitations? [SAS 58, pars. 47-48 (AU 508.47-.48)]	---	---	---

YES NO N/A

- | | | | | |
|----|---|---|---|---|
| b. | Report on comparative statements of revenue and expenses [<i>statements of operations</i>], and changes in fund balance [<i>shareholders' equity</i>] without presentation of the comparative balance sheets for the prior years?
[SAS 58, par. 9, footnote 7 (AU 508.08, fn. 7.)] | — | — | — |
| c. | Part of an audit was made by other independent auditors, and the principal auditors are indicating a division of responsibility for the audit in their report?
[SAS 1, sec. 543 (AU 543); SAS 58, pars. 12-13 (AU 508.12-.13)] | — | — | — |
| d. | Departure from a promulgated accounting principle when conformity would result in a misleading presentation?
[SAS 58, pars. 14-15 (AU 508.14-.15)] | — | — | — |
| e. | Updating of a previously issued opinion?
[SAS 58, par. 78 (AU 508.78)] | — | — | — |
| f. | Comparative financial statements with differing opinions?
[SAS 58, par. 76 (AU 508.76)] | — | — | — |
| g. | Audited and unaudited financial statements in comparative form?
[SAS 26, pars. 14-17 (AU 504.14-.17)] | — | — | — |
| h. | Decision to emphasize a matter?
[SAS 58, par. 37 (AU 508.37)] | — | — | — |
| 5. | Has explanatory language been added to the standard auditor's report if: | | | |
| a. | 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)] | — | — | — |
| b. | The auditor concludes that there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time and that conclusion is expressed through the use of the phrase "substantial doubt about its (the | | | |

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
entity's) ability to continue as a going concern"? [SAS 64, par. 1 (AU 341.12)]	---	---	---
c. 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)]	---	---	---
d. In an updated report on comparative financial statements, the opinion on the prior period is different from the one previously expressed? [SAS 58, pars. 77, 78 and 81-83 (AU 508.77-.78 and .81-.83)]	---	---	---
e. Other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements? [SAS 8 (AU 550)]	---	---	---
f. Required unaudited supplementary information is omitted or inadequate? (See General Section, L. - Required Supplementary Information) [CIRA, 7.30]	---	---	---
g. Auditor's inability to apply certain limited procedures to required supplementary information (e.g., determine whether disclosure includes all major property components)? [CIRA, 7.31]	---	---	---
h. Auditor has unresolved doubts about the adherence to the required supplementary information disclosure? [CIRA, 4.31]	---	---	---
6. 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 that:			
a. The financial statements of the prior period were audited by another auditor?	---	---	---
b. The date of the predecessor auditor's report?	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
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)]	---	---	---
7. If the financial statements have been restated, does the introductory paragraph indicate that a predecessor auditor reported on the financial statements of the prior period before restatement? [SAS 64, par. 2 (AU 508.83)]	---	---	---
8. Has a qualified opinion or disclaimer of opinion been expressed if scope limitations precluded application of one or more auditing procedures considered necessary in the circumstances? [SAS 58, pars. 40-45 (AU 508.40-.45); SAS 31, par. 22 (AU 326.23)]	---	---	---
9. Has a qualified opinion or adverse opinion been expressed because of a lack of conformity with GAAP (including inadequate disclosure)? [SAS 58, pars. 49-66 (AU 508.49-.66); SAS 54, par. 18; (AU 317.18); SAS 32, par. 3 (AU 431.03); SAS 34, par. 11 (AU 340.11)]	---	---	---
10. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed:			
a. Are all the substantive reasons for the opinion or disclaimer disclosed? [SAS 58, pars. 39, 68 and 71 (AU 508.39, .68, 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)]	---	---	---
11. Does the report include modification, if applicable, for the following:			

YES NO N/A

- | | | | | |
|-----|--|-----|-----|-----|
| a. | Conditions that precluded application of necessary auditing procedures to opening long-term investments?
[SAS 58, par. 42 (AU 508.42)] | ___ | ___ | ___ |
| b. | Client representations about related party transactions that are unsubstantiated by management?
[SAS 45, par. 2 (AU 334.12)] | ___ | ___ | ___ |
| c. | Client's refusal to provide written representations?
[SAS 19, par. 11 (AU 333.11)] | ___ | ___ | ___ |
| d. | Limitations on scope of lawyer's response?
[SAS 12, pars. 12-14 (AU 337.12-.14)] | ___ | ___ | ___ |
| e. | Unresolved matters involving specialists?
[SAS 11, par. 9 (AU 336.09)] | ___ | ___ | ___ |
| f. | Financial statements materially affected by an irregularity?
[SAS 53, par. 26 (AU 316.26)] | ___ | ___ | ___ |
| g. | Illegal acts by clients?
[SAS 54 (AU 317)] | ___ | ___ | ___ |
| h. | Material misstatement of the financial statements?
[SAS 47, par. 31 (AU 312.31)] | ___ | ___ | ___ |
| i. | Financial statements issued before the effective date of a Statement of Financial Accounting Standards when disclosure is not made of the effect of a restatement that will be required in the future as a result of the Statement?
[Interpretation 3 of SAS 1, section 410 (AU 9410.13-.15)] | ___ | ___ | ___ |
| 12. | Has a piecemeal opinion been avoided?
[SAS 58, par. 73 (AU 508.73); SAS 62, par. 14 (AU 623.14)] | ___ | ___ | ___ |
| 13. | For special reports, have the provisions of SAS 14 and SAS 35 been complied with for the following situations: | | | |
| a. | Statements prepared in accordance with a comprehensive basis of accounting other than GAAP? | ___ | ___ | ___ |

YES NO N/A

[SAS 62, pars. 2-10 (AU 623.02-.10)]

b. Specified elements, accounts or items of a financial statement?

[SAS 62, pars. 11-18 (AU 623.11-.18); SAS 35 (AU 622)]

___ ___ ___

c. Financial information that requires a prescribed form of auditor's report?

[SAS 62, pars. 32-33 (AU 623.32-.33)]

___ ___ ___

14. If information accompanies the basic financial statements in an auditor-submitted document:

a. Is there a clear distinction between the client's representations and auditor's representations?

[SAS 29, par. 20 (AU 551.20)]

___ ___ ___

b. Does the auditor's report on the accompanying information:

(1) State that the audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole?

___ ___ ___

(2) Specifically identify the accompanying information?

___ ___ ___

(3) State that the accompanying information is presented for purposes of analysis and is not part of the basic financial statements?

___ ___ ___

(4) State whether the additional information has been subjected to the auditing procedures applied in auditing the basic financial statements and the appropriate expression of opinion or disclaimer?

___ ___ ___

[SAS 29, pars. 6-11 (AU 551.06-.11)]

YES NO N/A

15. If an auditor-submitted document with accompanying information (long-form report) is coexisting with a document that includes just the basic financial statements and auditor's report:
- a. Do the basic financial statements in all coexisting documents consistently include all the information necessary for a fair presentation in conformity with GAAP?
[SAS 29, par. 21 (AU 551.21)] _____
 - b. Are any additional comments or explanations by the auditor consistent with the description of the scope of the audit in the auditor's standard (or modified) report?
[SAS 29, par. 20 (AU 551.20)] _____
16. If the document contains interim financial information, has the auditor's report been expanded if required?
[SAS 36, pars. 24-30 (AU 722.24-.30)] _____
17. If supplementary information required by the FASB is presented outside the basic financial statements in an auditor-submitted document, has an opinion been disclaimed on such information unless it has been audited?
[SAS 29, par. 7 (AU 551.07); SAS 27, pars. 8 and 11 (AU 553.08 and .11)] _____

Accountants' Reports on Compiled or Reviewed Financial Statements Checklist

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:

SSARS = Statement on Standards for Accounting and Review Services
 AR = Reference to section number in AICPA Professional Standards (vol. 2) of SSARS cited

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
1. For compiled financial statements, does the report state that:			
a. A compilation has been performed in accordance with standards established by the American Institute of Certified Public Accountants?	---	---	---
b. A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners)?	---	---	---
c. The financial statements have not been audited or reviewed and, accordingly, the accountant does not express an opinion or any other form of assurance on them? [SSARS No. 1, par. 14 (AR 100.14); SSARS No. 5, par. 1 (AR 500.01)]	---	---	---
2. For reviewed financial statements, does the report state that:			
a. A review was performed in accordance with standards established by the American Institute of Certified Public Accountants?	---	---	---
b. All information included in the financial statements is the representation of the management of the CIRA?	---	---	---
c. A review consists principally of inquiries of organization personnel and analytical procedures applied to financial data?	---	---	---

YES NO N/A

- d. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements taken as a whole and, accordingly, no such opinion is expressed? _____
- e. The accountant is not aware of any material modification that should be made to the financial statements in order for them to be in conformity with GAAP or, where applicable, with an other comprehensive basis of accounting, other than those modifications, if any, indicated in the report?
[SSARS No. 1, par. 32 (AR 100.32)] _____
3. For both compiled and reviewed financial statements, does the report exclude a description of any other procedures that the accountant might have performed before or during the engagement?
[SSARS No. 1, pars. 14 and 32 (AR 100.14 and 100.32)] _____
4. If the CIRA did not disclose information about future major repairs and replacements, does the compilation or review report include an additional paragraph?
[CIRA, 8.04] _____
5. If the financial statements omit substantially all disclosures required by GAAP, does the accountant's report clearly indicate such omission?
[SSARS No. 1, pars. 19 and 21 (AR 100.19 and .21)] _____
6. If the financial statements include disclosures about only a few matters, are such disclosures labeled "Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles Are Not Included"?
[SSARS No. 1, par. 19 (AR 100.19)] _____
7. If the financial statements are presented on a basis of accounting other than GAAP, and the basis of accounting is not disclosed, does the accountant's report disclose the basis of accounting?
[SSARS No. 1, par. 20 (AR 100.20)] _____

YES NO N/A

8. If compiled financial statements contain a departure from GAAP or, where applicable, an other comprehensive basis of accounting, was the accountant's report modified to disclose the departure?
[SSARS No. 1, par. 39 (AR 100.39)]
- a. If the effects of the departure on the financial statements have been determined by management or are known as a result of the accountant's procedures, are these effects also disclosed in the modified report?
[SSARS No. 1, par. 40 (AR 100.40)]
- b. If the effects of the departure on the financial statements have not been determined, has the accountant's report been modified to state this?
[SSARS No. 1, par. 40 (AR 100.40)]
9. For reviewed financial statements that contain departures from GAAP or, where applicable, an other comprehensive basis of accounting (including the omission of required disclosures), was the accountant's report modified to disclose the departure?
[SSARS No. 1, par. 39 (AR 100.39)]
- a. If the effects of the departure on the financial statements have been determined by management or are known as a result of the accountant's procedures, are these effects also disclosed in the modified report?
[SSARS No. 1, par. 40 (AR 100.40)]
- b. If the effects of the departure on the financial statements have not been determined, was the accountant's report modified to state this?
[SSARS No. 1, par. 40 (AR 100.40)]
10. If the accountant is not independent with respect to the CIRA for which financial statements have been compiled, did the accountant state in the last paragraph of the report, "We are (I am) not independent with respect to XYZ Company"?
(Accountants are precluded from issuing a review report if they are not independent.)

YES NO N/A

[SSARS No. 1, pars. 22 and 38 (AR 100.22 and 100.38)]

- | | | | |
|---|-----|-----|-----|
| 11. Is the report dated? | ___ | ___ | ___ |
| 12. Does each page of the financial statements include a reference such as "See Accountant's Compilation (Review) Report"?
[SSARS No. 1, pars. 16 and 34 (AR 100.16, 100.34)] | ___ | ___ | ___ |
| 13. When accompanying information is presented with the financial statements, does the accountant's report indicate degree of responsibility with respect to such information?
[SSARS No. 1, par. 43 (AR 100.43)] | ___ | ___ | ___ |
| 14. If an audit engagement has been changed to a review or compilation, does the report omit reference to: a) the original engagement, b) any auditing procedures that may have been performed, and c) any scope limitation that resulted in the changed engagement?
[SSARS No. 1, par. 49 (AR 100.49)] | ___ | ___ | ___ |
| 15. For comparative financial statements: | | | |
| a. Does the accountant's report cover each period presented?
[SSARS No. 2, par. 2 (AR 200.02)] | ___ | ___ | ___ |
| b. If compiled financial statements that omit substantially all of the disclosures required by GAAP are presented with the comparative financial statements, do all the periods presented also omit such disclosures and does the accountant's compilation report include an additional paragraph that indicates: | | | |
| (1) The nature of the previous services rendered (compilation, review or audit)? | ___ | ___ | ___ |
| (2) Date of the previous reports? | ___ | ___ | ___ |
| (3) Appropriate language in accordance with SSARS No. 1, paragraphs 19-20 and SSARS No. 2, paragraph 30? | ___ | ___ | ___ |

YES NO N/A

[SSARS No. 1, pars. 19-21 (AR 100.19-.21);
SSARS No. 2, pars. 5 and 29-30 (AR 200.05
and 200.29-.30)]

- c. If the level of service performed by the continuing accountant on the current-period financial statements is the same as or higher than that performed on the financial statements of the prior period presented, has the continuing accountant's report on the prior period been updated?

[SSARS No. 2, pars. 8-10 (AR 200.08-.10)]

___ ___ ___

- d. If the level of service performed by the continuing accountant on the current-period financial statements is lower than that performed on the financial statements of the prior period presented:

- (1) Does the report on the current period include a separate paragraph that describes the responsibility assumed for the prior period?

___ ___ ___

or

- (2) Is the report on the current period accompanied by or combined with a reissued report on the financial statements of the prior period presented?

___ ___ ___

[SSARS No. 2, pars. 8 and 11-12 (AR 200.08
and 200.11-.12)]

- e. If the report requires a changed reference to a departure from GAAP regarding the prior period presented, does the explanatory paragraph in the report include:

- (1) The date of the previous report?

___ ___ ___

- (2) Description of the circumstances or events underlying the change?

___ ___ ___

- (3) Indication, if applicable, that the prior-period financial statements have changed?

___ ___ ___

[SSARS No. 2, pars. 14-15 (AR 200.14-.15)]

- f. If the predecessor accountant does not reissue his or her compilation or review

YES NO N/A

report on the prior-period financial statements, has the successor accountant:

- (1) Made appropriate reference in his or her report to the predecessor's report in accordance with SSARS No. 2?

or

- (2) Performed a compilation, review, or audit of the statements of the prior period and reported on them accordingly?

[SSARS No. 2, pars. 16-19 (AR 200.16-.19)]

- g. If the financial statements of the prior period presented have been changed, has the predecessor or successor accountant reported on them as presented?

[SSARS No. 2, pars. 25-26 (AR 200.25-.26)]

- h. If the current-period financial statements were compiled or reviewed and the prior period was audited, and the audit report has not been reissued, does the current-period report include a separate paragraph that contains the following:

- (1) Statement that the prior-period financial statements were previously audited?

- (2) Date of the previous report?

- (3) Type of opinion expressed previously?

- (4) If the opinion was other than unqualified, the substantive reasons therefor?

- (5) That no auditing procedures were performed after the date of the previous report?

[SSARS No. 2, par. 28 (AR 200.28)]

[For guidance on situations when the current period is audited and the prior period is compiled or reviewed, see Statement on Auditing Standards No. 26 (AU 504)]

Illustrative Financial Statements

Illustrative Financial Statements

The following exhibits illustrate a fund accounting presentation for a condominium as well as a set of non-fund accounting financial statements for a cooperative housing corporation. The notes to the illustrative financial statements are representative of the basic kind of disclosure for CIRAs and may not all be necessary for some CIRAs. Additional disclosure may be appropriate, depending on the circumstances. A summary of the exhibits follows:

- Exhibits 1.1 through 1.7 illustrate financial statements and supplementary information for a condominium association. Condominiums generally do not hold title to property transferred to them by the developers. Exhibits 1.1 and 1.2 present a balance sheet and a statement of revenues and expenses using fund reporting in a multicolumn format with a total funds column for the current and prior years. Exhibit 1.3 illustrates a statement of cash flows using the direct method. Exhibit 1.3A illustrates a statement of cash flows using the indirect method. This set of financial statements reflects an interfund receivable and payable of \$20,000, which the board of directors intends for the operating fund to repay to the replacement fund in the next fiscal year. The statements also disclose a transfer of \$10,000 from the replacement fund to the operating fund, which is an amount that the board of directors does not intend for the operating fund to repay to the replacement fund.
- The illustrative notes in exhibit 1.4 include alternative presentations for Note 4, which discloses information about a CIRA's fund for future major repairs and replacements. Alternative A illustrates disclosure based on a study conducted by the board of directors. Alternative B is based on a study conducted by an independent consulting firm. Note 4 also illustrates disclosure for a loan from the replacement fund to the operating fund as well as a permanent transfer.
- Exhibits 1.5 and 1.6 present detailed schedules of actual and budgeted amounts of revenues and expenses for the operating fund, and of changes in replacement fund balances. These schedules are not a required part of the basic financial statements; however, if they are included with the financial statements in an auditor-submitted document, the auditor should refer to SAS No. 29, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*, for reporting guidance.
- Exhibit 1.7 presents required unaudited supplementary information. Alternative A illustrates disclosure based on a study conducted by the board of directors and presents estimates of current replacement costs. Alternative B is based on a study conducted by an independent consulting firm and presents estimates of future replacement costs, which are calculated considering inflation and estimated investment income.
- Exhibits 2.1 through 2.4 present financial statements and notes for a cooperative housing corporation.
- Exhibit 2.5 presents unaudited supplementary information, based on a study conducted by the board of directors, required for a cooperative housing corporation and presents estimates of current replacement costs.

The financial statements illustrated do not include immaterial amounts.

XYZ Condominium Association, Inc.
Balance Sheets
as of December 31, 19X2
(With Comparative Totals for 19X1)

	19X2			19X1
	<i>Operating Fund</i>	<i>Replacement Fund</i>	<i>Total</i>	<i>Total</i>
<u>ASSETS</u>				
Cash and cash equivalents	\$110,000	\$364,000	\$474,000	\$298,000
Assessments receivable	28,000		28,000	9,000
Prepaid expenses	7,000		7,000	7,000
Due from operating fund		20,000	20,000	
Due to replacement fund	(20,000)		(20,000)	
Equipment, net of accumulated depreciation of \$8,000 and \$5,000	<u>21,000</u>		<u>21,000</u>	<u>17,000</u>
TOTAL ASSETS	<u>\$146,000</u>	<u>\$384,000</u>	<u>\$530,000</u>	<u>\$331,000</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 20,000	\$ 4,000	\$ 24,000	\$ 6,000
Wages payable	6,000		6,000	
Income taxes payable		1,000	1,000	5,000
Prepaid assessments	<u>20,000</u>		<u>20,000</u>	<u>15,000</u>
	46,000	5,000	51,000	26,000
FUND BALANCES	<u>100,000</u>	<u>379,000</u>	<u>479,000</u>	<u>305,000</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$146,000</u>	<u>\$384,000</u>	<u>\$530,000</u>	<u>\$331,000</u>

The accompanying notes are an integral part of the financial statements.

XYZ Condominium Association, Inc.
Statements of Revenues and Expenses
and Changes in Fund Balances
for the Year Ended December 31, 19X2
(With Comparative Totals for 19X1)

	19X2			19X1
	<i>Operating Fund</i>	<i>Replacement Fund</i>	<i>Total</i>	<i>Total</i>
REVENUES				
Member assessments	\$747,000	\$247,000	\$ 994,000	\$ 909,000
Interest		49,000	49,000	46,000
Lawsuit settlements		141,000	141,000	91,000
Other	<u>22,000</u>		<u>22,000</u>	<u>20,000</u>
TOTAL REVENUES	<u>769,000</u>	<u>437,000</u>	<u>1,206,000</u>	<u>1,066,000</u>
EXPENSES				
Wages and benefits	294,000		294,000	284,000
Utilities	160,000		160,000	141,000
Roofs		144,000	144,000	160,000
Service and contracts	129,000		129,000	134,000
Exterior siding		94,000	94,000	98,000
Repairs and supplies	92,000		92,000	61,000
Insurance and licenses	50,000		50,000	46,000
Administrative	28,000		28,000	18,000
Income taxes	1,000	11,000	12,000	13,000
Legal fees		10,000	10,000	
Recreational equipment		5,000	5,000	2,000
Solar equipment		5,000	5,000	
Streets		4,000	4,000	20,000
Tennis courts				12,000
Depreciation	3,000		3,000	3,000
Bad debts	2,000		2,000	
Pools and spas				<u>18,000</u>
TOTAL EXPENSES	<u>759,000</u>	<u>273,000</u>	<u>1,032,000</u>	<u>1,010,000</u>
Excess of revenues over expenses	10,000	164,000	174,000	56,000
Beginning fund balances	80,000	225,000	305,000	249,000
Transfer from replacement fund	<u>10,000</u>	<u>(10,000)</u>		
ENDING FUND BALANCES	<u>\$100,000</u>	<u>\$379,000</u>	<u>\$ 479,000</u>	<u>\$ 305,000</u>

The accompanying notes are an integral part of the financial statements.

XYZ Condominium Association, Inc.
Statement of Cash Flows
for the Year Ended December 31, 19X2
(With Comparative Totals for 19X1)

Direct Method

	19X2			19X1
	<i>Operating Fund</i>	<i>Replacement Fund</i>	<i>Total</i>	<i>Total</i>
Cash flows from operating activities:				
Member assessments collected	\$733,000	\$247,000	\$980,000	\$920,000
Interest received		49,000	49,000	46,000
Lawsuit settlement		141,000	141,000	91,000
Other income received	22,000		22,000	20,000
Cash paid for operating expenditures	(735,000)		(735,000)	(673,000)
Replacement expenditures paid		(258,000)	(258,000)	(310,000)
Income taxes paid	(1,000)	(15,000)	(16,000)	(26,000)
Transfers from replacement fund	10,000	(10,000)		
Net borrowings from replacement fund	20,000	(20,000)		
Net cash provided by operating activities	49,000	134,000	183,000	68,000
Cash flows from investing activities:				
Equipment purchases	(7,000)		(7,000)	(3,000)
Net increase in cash and cash equivalents	42,000	134,000	176,000	65,000
Cash and cash equivalents at beginning of year	68,000	230,000	298,000	233,000
Cash and cash equivalents at end of year	<u>\$110,000</u>	<u>\$364,000</u>	<u>\$474,000</u>	<u>\$298,000</u>

(continued)

The accompanying notes are an integral part of the financial statements.

	19X2			19X1
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>Total</u>
Reconciliation of excess of revenues over expenses to net cash provided by operating activities:				
Excess of revenues over expenses	<u>\$10,000</u>	<u>\$164,000</u>	<u>\$174,000</u>	<u>\$56,000</u>
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
Increase (decrease) in interfund balances	20,000	(20,000)		
Transfer from replacement fund	10,000	(10,000)		
Depreciation	3,000		3,000	3,000
Increase in assessments receivable	(19,000)		(19,000)	(1,000)
Decrease in prepaid expenses				1,000
Increase in accounts payable	14,000	4,000	18,000	2,000
Increase in wages payable	6,000		6,000	
Decrease in income taxes payable		(4,000)	(4,000)	
Increase in prepaid assessments	<u>5,000</u>		<u>5,000</u>	<u>7,000</u>
Total adjustments	<u>39,000</u>	<u>(30,000)</u>	<u>9,000</u>	<u>12,000</u>
Net cash provided by operating activities	<u>\$49,000</u>	<u>\$134,000</u>	<u>\$183,000</u>	<u>\$68,000</u>

The accompanying notes are an integral part of the financial statements.

XYZ Condominium Association, Inc.
Statement of Cash Flows
for the Year Ended December 31, 19X2
(With Comparative Totals for 19X1)

Indirect Method

	19X2			19X1
	<i>Operating Fund</i>	<i>Replacement Fund</i>	<i>Total</i>	<i>Total</i>
Excess of revenues over expenses	<u>\$ 10,000</u>	<u>\$164,000</u>	<u>\$174,000</u>	<u>\$ 56,000</u>
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
Increase (decrease) in interfund balances	20,000	(20,000)		
Transfer from replacement fund	10,000	(10,000)		
Depreciation	3,000		3,000	3,000
Increase in assessments receivable	(19,000)		(19,000)	(1,000)
Decrease in prepaid expenses				1,000
Increase in accounts payable	14,000	4,000	18,000	2,000
Increase in wages payable	6,000		6,000	
Decrease in income taxes payable		(4,000)	(4,000)	
Increase in prepaid assessments	<u>5,000</u>		<u>5,000</u>	<u>7,000</u>
Total adjustments	<u>39,000</u>	<u>(30,000)</u>	<u>9,000</u>	<u>12,000</u>
Net cash provided by operating activities	49,000	134,000	183,000	68,000
Cash flows from investing activities:				
Equipment purchases	<u>(7,000)</u>		<u>(7,000)</u>	<u>(3,000)</u>
Net increase in cash and cash equivalents	42,000	134,000	176,000	65,000
Cash and cash equivalents at beginning of year	<u>68,000</u>	<u>230,000</u>	<u>298,000</u>	<u>233,000</u>
Cash and cash equivalents at end of year	<u><u>\$110,000</u></u>	<u><u>\$364,000</u></u>	<u><u>\$474,000</u></u>	<u><u>\$298,000</u></u>

The accompanying notes are an integral part of the financial statements.

XYZ Condominium Association, Inc.
Notes to Financial Statements
December 31, 19X2 and 19X1

1. Organization

The XYZ Condominium Association (the Association) is a statutory condominium association organized as a not-for-profit corporation for the purposes of maintaining and preserving common property of the XYZ condominium. The XYZ condominium consists of 300 residential units occupying a site of approximately 10 acres. The Association began its operations in June 19XX.

2. Summary of Significant Accounting Policies

Fund accounting. The Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the board of directors and property manager. Disbursements from the replacement fund generally may be made only for designated purposes.

Interest earned. The board's policy is to allocate to the replacement fund interest earned on all cash accounts net of income taxes.

Recognition of assets and depreciation policy. The Association recognizes personal property assets at cost. The property is depreciated over its estimated useful life using the straight-line method of depreciation.

3. Owners' Assessments

Monthly assessments to owners were \$103.54 and \$94.69 in 19X2 and 19X1. Of those amounts, \$25.73 and \$22.50 were designated to the replacement fund.

The annual budget and assessments of owners are determined by the board of directors and are approved by the owners. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

4. Future Major Repairs and Replacements

Alternative A. The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and generally are not available for expenditures for normal operations.

The board of directors conducted a study in November 19X2 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from licensed contractors who inspected the property. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on the study.

The board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. Accordingly, the funding requirement of \$302,000 has been included in the 19X3 budget.

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

The Association used \$30,000 from the replacement fund for operating during 19X2. The board intends to repay \$20,000 of that amount during 19X3 and has, therefore, reflected \$20,000 as an interfund receivable and payable. The board does not intend to repay \$10,000 of the amount and has, therefore, reflected \$10,000 as a transfer from the replacement to the operating fund.

Alternative B. The Association’s governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and are generally not available for expenditures for normal operations.

The ABC Consulting Company conducted a study in November 19X2 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 5 percent and interest of 8 percent, net of taxes, on amounts funded for future major repairs and replacements. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on the study.

The board is funding for major repairs and replacements over the remaining useful lives of the components based on the study’s estimates of future replacement costs and considering amounts previously accumulated in the replacement fund. Accordingly, the funding requirement of \$374,000 has been included in the 19X3 budget.

Funds are being accumulated in the replacement fund based on estimated future costs for repairs and replacements of common property components. Actual expenditures and investment income may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

The Association used \$30,000 from the replacement fund for operations during 19X2. The board intends to repay \$20,000 of that amount during 19X3 and has, therefore, reflected \$20,000 as an interfund receivable and payable. The board does not intend to repay \$10,000 of the amount and has, therefore, reflected \$10,000 as a transfer from the replacement to the operating fund.

5. Federal and State Taxes

In 19X2, the Association filed its income tax return as a regular corporation. The Association had an excess of expenses for the maintenance of the common property over membership source income. That excess may be carried over to future periods to offset future income from membership sources when the Association files as a regular corporation. In 19X1, the Association elected to file as a homeowner’s association in accordance with Internal Revenue Code section 528. Under that section, the Association excludes from taxation exempt function income, which generally consists of revenue from uniform assessments to owners. In both years, the Association’s investment income and other nonexempt income were subject to tax.

6. Lawsuit Settlements

During 19X1, the Association settled a lawsuit against the developer for defective construction and received a partial settlement of \$91,000. During 19X2, the Association received another settlement of \$141,000. Legal fees of \$10,000 were incurred in connection with that lawsuit.

The following net amounts have been added to the replacement fund.

	<u>19X2</u>	<u>19X1</u>
Roof	\$131,000	\$66,000
Tennis courts	0	23,000
Pools and spas	0	1,000
Streets	0	1,000
TOTAL	<u><u>\$131,000</u></u>	<u><u>\$91,000</u></u>

7. Assessments Receivable

The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty days in arrears. As of December 31, 19X2, the Association had assessments receivable of \$28,000, of which \$22,000 were delinquent. As of the date of this report, judgments and settlements of approximately \$15,000 have been received. It is the opinion of the board of directors that the Association will ultimately prevail against the remaining homeowners whose assessments are delinquent, and, accordingly, no allowance for uncollectible accounts is deemed necessary.

XYZ Condominium Association, Inc.
Schedules of Operating Fund Revenues and Expenses
for the Years Ended December 31, 19X2 and 19X1

	19X2		19X1	
	19X2 <i>Actual</i>	19X2 <i>Budget</i>	19X1 <i>Actual</i>	19X1 <i>Budget</i>
		<i>(Unaudited)</i>		<i>(Unaudited)</i>
REVENUES				
Assessments	\$747,000	\$747,000	\$693,000	\$693,000
Other charges	<u>22,000</u>	<u>23,000</u>	<u>20,000</u>	<u>20,000</u>
TOTAL	<u>769,000</u>	<u>770,000</u>	<u>713,000</u>	<u>713,000</u>
EXPENSES				
<u>Wages and Benefits</u>				
Grounds	130,000	144,000	106,000	128,000
Maintenance	87,000	100,000	98,000	100,000
Payroll taxes and benefits	37,000	31,000	31,000	30,000
Office	27,000	31,000	34,000	35,000
Workers' compensation insurance	<u>13,000</u>	<u>16,000</u>	<u>15,000</u>	<u>15,000</u>
	<u>294,000</u>	<u>322,000</u>	<u>284,000</u>	<u>308,000</u>
<u>Utilities</u>				
Electricity	111,000	108,000	100,000	95,000
Water	29,000	33,000	33,000	33,000
Gas	<u>20,000</u>	<u>9,000</u>	<u>8,000</u>	<u>12,000</u>
	<u>160,000</u>	<u>150,000</u>	<u>141,000</u>	<u>140,000</u>
<u>Service and Contracts</u>				
Security	43,000	45,000	45,000	50,000
Cable T.V.	21,000	20,000	19,000	20,000
Trash disposal	19,000	19,000	18,000	20,000
Pool service	18,000	18,000	17,000	15,000
Janitorial	15,000	21,000	21,000	20,000
Pest control	<u>13,000</u>	<u>14,000</u>	<u>14,000</u>	<u>10,000</u>
	<u>129,000</u>	<u>137,000</u>	<u>134,000</u>	<u>135,000</u>
<u>Repairs and Supplies</u>				
Landscape supplies	15,000	11,000	9,000	10,000
Equipment repairs	14,000	11,000	13,000	12,000
Equipment rental	13,000	13,000	8,000	7,000
Vehicle maintenance	12,000	14,000	7,000	10,000

(continued)

	19X2		19X1	
	<u>19X2 Actual</u>	<u>19X2 Budget (Unaudited)</u>	<u>19X1 Actual</u>	<u>19X1 Budget (Unaudited)</u>
<u>Repairs and Supplies (cont.)</u>				
Fence repairs	8,000	8,000	8,000	7,000
Plumbing	6,000	5,000	5,000	8,000
Street repairs	5,000	2,000	2,000	6,000
Parts and supplies	5,000	2,000	2,000	1,000
Pool repairs	4,000	5,000	1,000	2,000
Sprinkler supplies	4,000	7,000	3,000	2,000
Electrical	3,000	3,000	2,000	3,000
Tennis courts	3,000	2,000	1,000	2,000
	<u>92,000</u>	<u>83,000</u>	<u>61,000</u>	<u>70,000</u>
<u>Insurance and Licenses</u>				
Insurance	49,000	49,000	45,000	40,000
Licenses	1,000	1,000	1,000	
	<u>50,000</u>	<u>50,000</u>	<u>46,000</u>	<u>40,000</u>
<u>Administrative</u>				
Accounting	11,000	10,000	6,000	7,000
Legal	9,000	11,000	8,000	8,000
Office	4,000	4,000	1,000	1,000
Telephone	4,000	3,000	3,000	4,000
	<u>28,000</u>	<u>28,000</u>	<u>18,000</u>	<u>20,000</u>
<u>Bad Debts</u>	<u>2,000</u>			
<u>Depreciation</u>	<u>3,000</u>		<u>3,000</u>	
<u>Income Taxes</u>	<u>1,000</u>			
TOTAL EXPENSES	<u>759,000</u>	<u>770,000</u>	<u>687,000</u>	<u>713,000</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 10,000</u>	<u>\$</u>	<u>\$ 26,000</u>	<u>\$</u>

XYZ Condominium Association, Inc.
Schedules of Changes in Replacement Fund Balances
for the Years Ended December 31, 19X2 and 19X1

COMMON AREA COMPONENT	19X2			<i>Components of Ending Fund Balance</i>
	<i>Beginning Fund Balance</i>	<i>Additions to Fund ¹</i>	<i>Charges to Fund</i>	
Roofs	\$ 96,000	\$202,000	\$144,000	\$154,000
Streets	17,000	44,000	4,000	57,000
Recreation facilities	50,000	10,000	5,000	55,000
Exterior siding	38,000	104,000	94,000	48,000
Pools, spas, solar equipment	8,000	36,000	5,000	39,000
Tennis courts	4,000	10,000		14,000
Furniture and equipment	12,000			12,000
Lawsuit legal fees		10,000	10,000	
TOTAL	<u>\$225,000</u>	<u>\$416,000</u>	<u>\$262,000</u>	<u>\$379,000</u>

COMMON AREA COMPONENT	19X1			<i>Components of Ending Fund Balance</i>
	<i>Beginning Fund Balance</i>	<i>Additions to Fund ¹</i>	<i>Charges to Fund</i>	
Roofs	\$102,000	\$154,000	\$160,000	\$ 96,000
Streets	11,000	26,000	20,000	17,000
Recreation facilities	35,000	17,000	2,000	50,000
Exterior siding	32,000	104,000	98,000	38,000
Pools, spas, solar equipment	13,000	13,000	18,000	8,000
Tennis courts	2,000	14,000	12,000	4,000
Furniture and equipment		12,000		12,000
TOTAL	<u>\$195,000</u>	<u>\$340,000</u>	<u>\$310,000</u>	<u>\$225,000</u>

¹ Includes interest income of \$49,000, net of income taxes of \$11,000 and net of a \$10,000 transfer to the operating fund in 19X2 and interest income of \$46,000, net of income taxes of \$13,000 in 19X1.

Note: These reconciling items may be presented as illustrated here or in separate columns in this schedule.

XYZ Condominium Association, Inc.
Supplementary Information on Future Major Repairs
and Replacements
December 31, 19X2
(Unaudited)

Alternative A

The board of directors conducted a study in November 19X2 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from licensed contractors who inspected the property.

The following table is based on the study and presents significant information about the components of common property.

<u>Components</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Costs</u>	<u>19X3 Funding Requirement</u>	<u>Components of Fund Balance at Dec. 31, 19X2</u>
Roofs	5 to 14	\$1,620,000	\$120,000	\$154,000
Streets	5 to 14	96,000	40,000	57,000
Recreation facilities	2 to 11	120,000	12,000	55,000
Exterior siding	7 to 11	760,000	72,000	48,000
Pools, spas, solar equipment	2 to 14	112,000	36,000	39,000
Tennis courts	5 to 10	64,000	10,000	14,000
Furniture and equipment	3 to 7	80,000	12,000	12,000
		<u>\$2,852,000</u>	<u>\$302,000</u>	<u>\$379,000</u>

(continued)

XYZ Condominium Association, Inc.
Supplementary Information on Future Major Repairs
and Replacements
December 31, 19X2
(Unaudited)

Alternative B

The ABC Consulting Company conducted a study in November 19X2 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 5 percent and interest of 8 percent, net of taxes, on amounts funded for future major repairs and replacements.

The following table is based on the study and presents significant information about the components of common property.

<u>Components</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Future Replacement Costs</u>	<u>19X3 Funding Requirement</u>	<u>Components of Fund Balance at Dec. 31, 19X2</u>
Roofs	5 to 14	\$3,023,000	\$152,000	\$154,000
Streets	5 to 14	179,000	46,000	57,000
Recreation facilities	2 to 11	180,000	15,000	55,000
Exterior siding	7 to 11	1,256,000	93,000	48,000
Pools, spas, solar equipment	2 to 14	174,000	42,000	39,000
Tennis courts	5 to 10	97,000	12,000	14,000
Furniture and equipment	3 to 7	107,000	14,000	12,000
		<u>\$5,016,000</u>	<u>\$374,000</u>	<u>\$379,000</u>

ABC Cooperative, Inc.¹
(A Cooperative Housing Corporation)
Balance Sheet
December 31, 19X2

ASSETS

Cash, including investment in money market fund of \$6,850		\$ 38,000
Tenant-shareholders' rent receivables		15,000
Prepaid expenses		9,000
Property and equipment		
Land	\$ 640,000	
Building	1,720,000	
Building improvements: construction in progress	140,000	
Furniture and equipment	90,000	
	<u>2,590,000</u>	
Less: accumulated depreciation	1,620,000	
Net property		970,000
Mortgage refinancing costs, less accumulated amortization of \$15,000		<u>25,000</u>
TOTAL ASSETS		<u><u>\$1,057,000</u></u>

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

Accounts payable and accrued expenses		\$ 118,000
Prepaid rents		6,000
Mortgage note payable		1,865,000
Security deposits of commercial lessees		8,000
TOTAL LIABILITIES		<u>1,997,000</u>
Shareholders' equity (deficit)		
Common stock—\$2.00 par value; authorized— 40,000 shares; issued and outstanding—20,000 shares	\$ 40,000	
Additional paid-in-capital	420,000	
	<u>460,000</u>	
Deficit	(1,400,000)	
Total shareholders' equity (deficit):		<u>(940,000)</u>
TOTAL LIABILITIES AND SHARE- HOLDERS' DEFICIT		<u><u>\$1,057,000</u></u>

The accompanying notes are an integral part of the financial statements.

¹If separate funds are maintained for future major repairs and replacements or for other purposes, fund reporting may be more informative to users of the financial statements of cooperative housing corporations and may be used as an alternative presentation.

Exhibit 2.2

ABC Cooperative, Inc.
(A Cooperative Housing Corporation)
Statement of Revenues, Expenses, and Deficit
Year Ended December 31, 19X2

REVENUES

Carrying charges	\$ 700,000
Commercial rent	89,000
Appliance and air-conditioning charges	45,000
Interest	10,000
Resale fees	3,000
Forfeited security deposits	2,000
TOTAL REVENUES	<u>849,000</u>

EXPENSES

Wages, including fringe benefits	\$295,000
Real estate taxes	237,000
Interest	195,000
Utilities	121,000
Repairs and maintenance	53,000
Management fees	24,000
Insurance	16,000
Legal and accounting	10,000
Security	4,000
Income taxes	2,000
TOTAL EXPENSES BEFORE DEPRECIATION AND AMORTIZATION	<u>957,000</u>
Deficiency of revenues over expenses before depreciation	(108,000)
Depreciation	<u>72,000</u>
Deficiency of revenues over expenses	(180,000)
Deficit—beginning of year	<u>(1,220,000)</u>
DEFICIT—END OF YEAR	<u><u>\$(1,400,000)</u></u>

The accompanying notes are an integral part of the financial statements.

ABC Cooperative, Inc.
(A Cooperative Housing Corporation)
Statement of Cash Flows
Year Ended December 31, 19X2

Direct Method

Cash flows from operating activities:	
Tenant-shareholder carrying charges, net of \$60,000 allocated to financing activities	\$ 640,000
Commercial rent	89,000
Appliance and air-conditioning charges and resale fees	48,000
Interest income	10,000
Forfeited security deposits	2,000
Cash paid to employees and suppliers	(437,000)
Real estate taxes	(292,000)
Interest expense	(140,000)
Net cash absorbed by operating activities	<u>(80,000)</u>
Cash flows from financing activities:	
Tenant-shareholder carrying charges	60,000
Repayment of debt	(60,000)
Net cash from financing activities	<u>0</u>
Cash flows from investing activities:	
Additions to building, furniture, and equipment	(150,000)
Net decrease in cash and cash equivalents	(230,000)
Cash and cash equivalents:	
Beginning of period	<u>268,000</u>
End of period	<u>\$ 38,000</u>

(continued)

The accompanying notes are an integral part of the financial statements.

ABC Cooperative, Inc.
(A Cooperative Housing Corporation)
Statement of Cash Flows
Year Ended December 31, 19X2

Reconciliation of deficiency of revenues over expenses to net cash absorbed by operating activities:	
Deficiency of revenues over expenses	\$(180,000)
Adjustments to reconcile deficiency of revenues over expenses to net cash absorbed by operating activities:	
Revenue allocated to financial activities	(60,000)
Depreciation	72,000
(Increase) in tenant-shareholder rent receivables	(2,000)
Decrease in prepaid expenses	3,000
Increase in accounts payable and accrued expenses	85,000
Increase in prepaid rents	3,000
(Decrease) in security deposits of commercial leases	(1,000)
Net cash absorbed by operating activities	<u>\$ (80,000)</u>

The accompanying notes are an integral part of the financial statements.

ABC Cooperative, Inc.
(A Cooperative Housing Corporation)
Notes to Financial Statements
December 31, 19X2

1. Organization

ABC Cooperative, Inc., a cooperative housing corporation (the Corporation), was incorporated in the state of New York in April, 19XX. The Corporation owns the eighteen-story building known as ABC Apartments located at _____ in New York City and consisting of 175 residential apartments and ten commercial units.

2. Summary of Significant Accounting Policies

Property and equipment. Property and equipment are stated at cost. Depreciation is computed on the straight-line basis, based on thirty-year life for the building and ten-year life for building improvements, furniture, and equipment.

Mortgage refinancing costs. Mortgage refinancing costs are amortized by the interest method over the ten-year term of the loan.

3. Revenue

Carrying charges. Carrying charges are based on an annual budget determined by the board of directors. Tenant-shareholders are billed monthly based on their respective stock holdings. The Corporation retains excess operating funds, if any, at the end of the operating year, for use in future operating periods.

Commercial rent. The Corporation has entered into five-year lease agreements with ten commercial tenants providing for annual rentals aggregating \$92,000 with increases based on the Consumer Price Index.

4. Mortgage Note Payable

The Corporation has a mortgage note payable, secured by the land and building, to XYZ Bank of New York with interest at the rate of 10 percent. The aggregate amount of required principal payments at December 31, 19X2 is as follows:

19X3		\$ 61,000
19X4		62,000
19X5		63,000
19X6		65,000
19X7		67,000
later years		<u>1,547,000</u>
Total		<u><u>\$1,865,000</u></u>

5. Federal and State Taxes

The Corporation is subject to federal and state taxation on net income derived from transactions with nonmembers pursuant to section 277 of the Internal Revenue Code. Income tax expense in 19X2 was \$2,000.

6. Future Major Repairs and Replacements

The Corporation's governing documents require that funds be accumulated for future major repairs and replacements. The Corporation has not accumulated those funds. When those funds are needed, the Corporation plans to borrow, increase carrying charges, or delay repairs and replacements until funds are available.

The board of directors conducted a study in November 19X2 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from licensed contractors who inspected the property. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on the study.

ABC Cooperative, Inc.
(A Cooperative Housing Corporation)
Supplementary Information on Future Major Repairs and
Replacements
December 31, 19X2
(Unaudited)

In November 19X2, the board of directors conducted a study to estimate the remaining useful lives and the replacement costs of the components of the building, furniture, and equipment. The estimates were obtained from licensed contractors who inspected the property. The following table is based on that study and presents significant information about the components of the building, furniture, and equipment.

<u>Components</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Costs</u>
Roof	15	\$175,000
Exterior	3	30,000
Recreation facilities	2-5	25,000
Carpeting	5	45,000
Furniture and equipment	2-7	15,000
		<u>\$290,000</u>

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